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South Asia

Outlook and Situation Report

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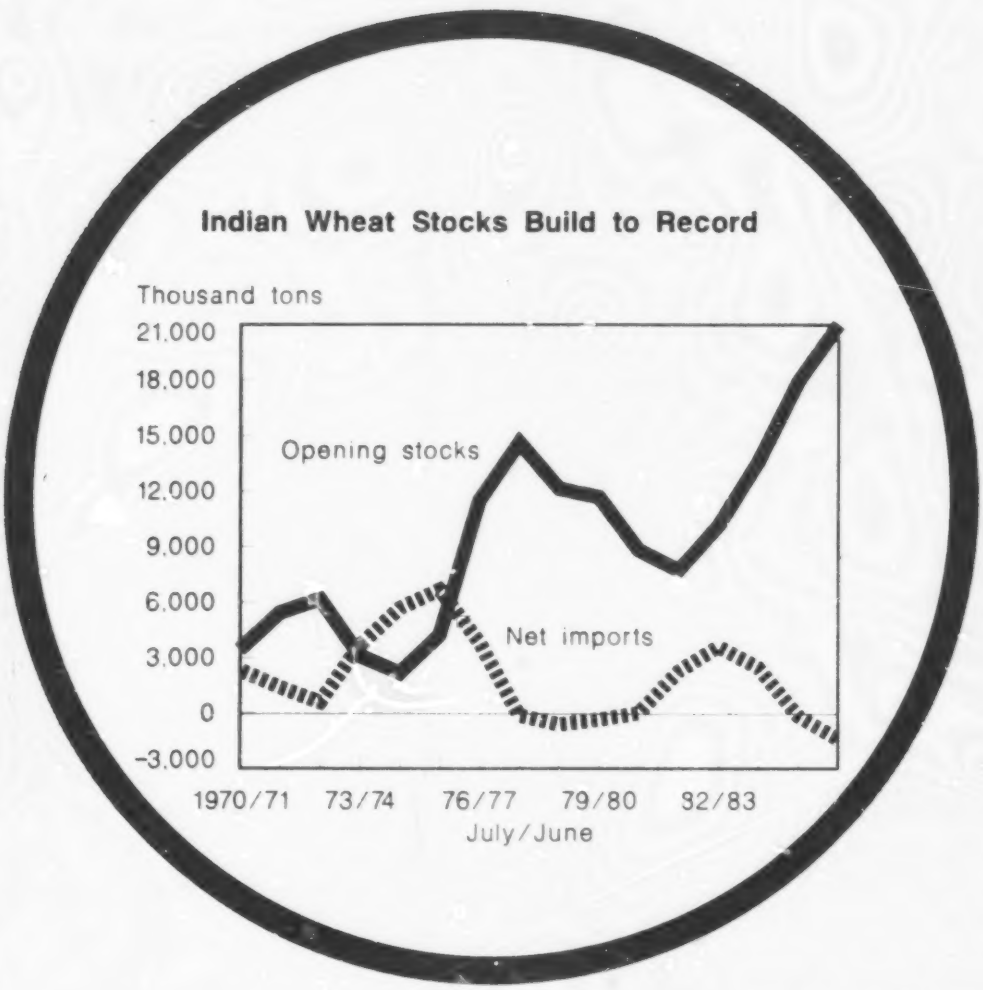

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Notes: Discussion of Afghanistan has been omitted from this report because of the lack of meaningful information on that country since the Soviet incursion in December 1979. Farm production is normally reported by split years that include all crops grown under the influence of the same monsoon (e.g., 1984/85 includes crops harvested in fall 1984 through spring 1985). Split marketing and fiscal years are frequently used in the analysis and are defined when first used. Unless otherwise specified, rice data are for milled rice, dollars are U.S. dollars, and measures are metric.

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SUMMARY

U.S. farm exports to South Asia are projected to rise about 19 percent to $760 million in fiscal 1986, with large concessional wheat sales to Pakistan likely to account for most of the increase. No growth is forecast in U.S. wheat sales to other South Asian countries; India's huge wheat surplus will probably preclude wheat imports for at least 2 to 3 years. Although India's and Pakistan's edible oil import needs are expected to rise in 1986, continued stiff competition from palm oil is likely to prevent any significant gains for U.S. soybean oil. Record exportable cotton supplies in Pakistan limit prospects for sales of U.S. cotton in the region.

U.S. exports to South Asia have fallen 25 percent to about $641 million in fiscal 1985. Wheat sales are off nearly 20 percent, despite larger exports to Bangladesh, because India ended commercial wheat imports and competitors met most of Pakistan's increased demand. U.S. soybean oil marketings have dropped more than 25 percent because of improved South Asian oilseed harvests and resurgent competition from palm oil, particularly in the Indian market. U.S. cotton exports have plunged nearly 70 percent. The main reason is that Pakistan ended imports and resumed competition in the Bangladesh market following a record-shattering rebound in cotton output.

Real economic growth is near trend in most South Asian countries in 1984/85, but budgetary and balance-of-payments problems continued to hamper economic performance. Growth in farm output slowed in all countries except Pakistan, after above-trend gains in 1983/84. However, slower gains in farm output were generally offset by some improvement in nonfarm sectors. In all countries, large budget deficits contributed to inflationary pressures and to shortages of funds for development investments. Pakistan's and Bangladesh's balance of payments were hit by wider trade deficits in 1984/85, but India and Sri Lanka turned in better trade performances. Slowed growth in foreign remittances and steadily rising debt-service obligations pressured the balance of payments in all countries.

The 1985/86 economic outlook for the region is mixed. Although stronger growth is forecast for India, smaller gains in farm output will probably slow growth in Pakistan. Bangladesh's economy will be constrained by a limited capacity to finance imports, and Sri Lanka's outlook is clouded by both limited import ability and continued civil unrest. The balance-of-payments positions of all countries in the region will remain tight, with only small gains expected on the trade account, continued slow growth in foreign remittances, and a further rise in debt obligations.

South Asian cereal production in 1984/85 fell about 1 percent from the 1983/84 record. Poor weather led to small declines in Indian harvests, and prevented significant gains in Bangladesh and Pakistan. Sri Lanka had its first major rice production setback in 9 years last season, and Pakistan harvested a second consecutive poor wheat crop. Nevertheless, the region's total wheat imports dropped more than 25 percent. South Asian rice imports are also falling sharply in 1985, with smaller imports by India and Bangladesh offsetting larger Sri Lankan requirements. Vigorous world competition hampered India's efforts to export surplus wheat in 1984/85 and will also lead to a decline in Pakistani rice exports in 1985.

With an average monsoon, the region's 1985/86 cereal production is forecast to rise 4 percent. Little or no growth is expected in wheat imports, as Pakistan's larger requirements are balanced by smaller imports in the rest of the region. Regional rice imports are projected to fall in 1986 because of reduced demand by Bangladesh and Sri Lanka. Indian wheat exports are forecast at 1.5 million tons in 1985/86, but may be hindered by competition. Competition may also continue to prevent major gains in Pakistani and Indian rice exports.

After soaring to a record 2.6 million tons in 1984, edible oil imports by India and Pakistan are forecast to fall 20 percent in 1985, primarily because of improved domestic supplies. Palm oil is expected to recapture a dominant share of the market, as higher relative prices for soybean oil lead to a 40-percent drop in soybean oil imports. The region's edible oil imports are projected to rise about 10 percent in 1986 because of the outlook for a smaller cottonseed crop in

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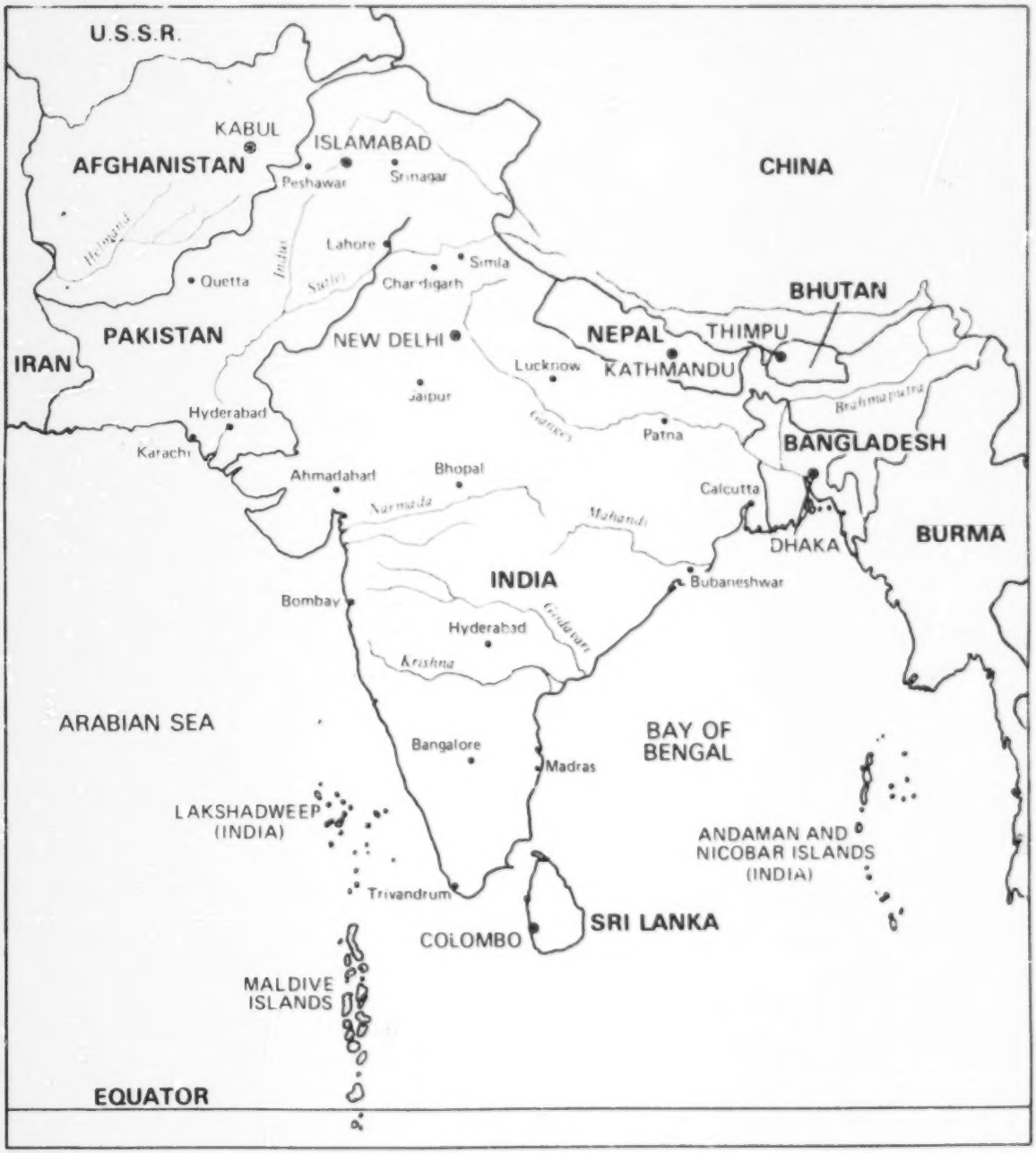
Pakistan and slowed growth in oilseed production in India. However, little growth is projected in soybean oil imports.

South Asian cotton production rebounded 40 percent to a record in 1984/85, following severe rain and insect damage to the 1983/84 crop. Pakistani production exceeded the previous record by 22 percent. However, Indian supplies remained relatively tight, particularly for shorter staple cottons. Pakistani cotton production is forecast to fall in 1985/86, but large stocks are expected to lead to another increase in exports. Indian production is forecast to be unchanged, with imports of short-staple cottons and exports of longer stape types expected to correct continued imbalance in varieties.

South Asia



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REGIONAL OVERVIEW

The Macroeconomy

Steady Growth in Most of the Region

Real economic growth remained near or above trend in most South Asian nations in 1984/85, with generally slower growth in farm output offset by some improvement in the nonfarm sectors. Farm production gains were smaller in all countries except Pakistan because of inability to match growth achieved during strong recoveries in 1983/84, and because of poor weather in some areas. Pakistan's farm sector registered a strong gain in 1984/85, largely because of a sharp rebound in cotton production. All of the region's growing industrial sectors expanded more rapidly in 1984/85, benefiting from stronger domestic and foreign demand, but performance was generally below that needed to sustain stronger overall growth. Most countries began to give higher priority to investments and policy measures intended to stimulate industrial production for both domestic and foreign markets.

Virtually all of the Governments in the region faced more acute problems in 1984/85 with large budgetary deficits and with mobilization of sufficient resources to meet development investment targets. Rising outlays for such items as defense, consumer and producer subsidies, and interest on debt threatened developmental expenditures. Low rates of domestic saving were a persistent constraint in every country except India. The deteriorating domestic investment climate was also affected by adverse developments in the balance of payments. Growth in inflows of remittances and deposits from nonresidents, key sources of revenues in all countries, continued to slow because of less expansion of employment opportunities in the Middle East and higher real interest rates abroad. In addition, investment budgets were pressured by a hardening of terms for foreign borrowing and higher interest and principal repayment obligations on foreign debt.

Control of Inflation Remains Key Concern

While inflation slowed sharply in India in 1984/85, other countries generally experienced relatively high rates of inflation. Shortages of some food items contributed significantly to higher prices in several countries, particularly Pakistan and Sri Lanka. Large budget deficits and strong growth in the money supply through expansion in net bank credit to Governments were also key sources of inflationary pressure. With price stability, particularly for food items, a priority policy objective throughout the region, measures to control inflation during 1984/85 included larger imports of food items by some countries.

Balance of Payments Pressures Continue

Bangladesh's and Pakistan's balance of payments deteriorated sharply in 1984/85, while there was moderate improvement in India and Sri Lanka. Weak export performance boosted Pakistan's trade deficit. Bangladesh's chronically large deficit was worsened by slow export growth and a larger import bill, particularly for food grains. India's trade deficit was unchanged, and Sri Lanka's fell, because of better export performance and success in slowing imports. Slowed growth in foreign remittances, along with steadily rising repayment obligations for foreign borrowing, were common problems. These developments motivated renewed efforts to boost exports, stimulate private foreign investment, and substitute for imports.

Economic Outlook for 1985/86 Mixed

The outlook for the region's economies in 1985/86 is mixed. In India, better performance in both farm and nonfarm sectors is forecast to result in stronger and above-trend growth, assuming an average 1985 monsoon. However, growth is forecast to slow in Pakistan as smaller farm sector gains offset a somewhat stronger performance in textiles and other industries. Although normal weather should ensure solid gains in farm output in Bangladesh, extremely limited capacity to finance imports of development goods is forecast to lead to a slowdown in overall growth. In Sri Lanka, a second consecutive poor rice crop, disruptions caused by civil unrest, and limited import capacity severely limit economic growth prospects.

Good harvests of grains and other food crops should lead to some easing of inflationary pressures in most of the region in 1985/86. Nevertheless, inflation is expected to rise in Pakistan, and to remain relatively high in Sri Lanka. Large budget deficits, and

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further expansion of bank credit to cover the deficits, are likely to remain key threats to price stability. Pressures caused by this excess liquidity may aggravate the impact that any production shortfalls have on food prices and import requirements. Especially in Bangladesh, Sri Lanka, and Pakistan, achievement of real investment targets will be increasingly dependent on reducing nondevelopmental outlays, and boosting domestic savings, private foreign investment, and exports.

Projections for 1985/86 suggest little or no improvement in the region's balance of payments positions. India's export performance is expected to improve, but this will be largely offset as India continues to liberalize essential imports and meet rising debt obligations. Pakistan's exports are also expected to rise, but larger imports of essential items and slow growth in remittances will probably prevent any rebuilding of foreign reserves. In Bangladesh, a chronically large trade deficit, limited export prospects, and little growth in foreign aid are expected to constrain imports of development goods, contributing to slower economic growth. Sri Lanka's trade deficit and foreign reserves will be pressured by falling prices for tea exports, possibly leading to tighter controls on imports.

Commodity Developments

Cereal Production Falls in 1984/85

Total South Asian cereal production fell about 1 percent in 1984/85, after breaking the previous record by 11 percent in 1983/84 largely because of record-shattering Indian harvests. Poor 1984 monsoon rainfall in some areas led to small declines in rice production in India and Nepal, little or no growth in Pakistan and Bangladesh, and the first significant setback in 9 years in Sri Lanka. Growth in wheat output was slowed to about 1 percent by abnormally dry winter weather. Smaller 1985 wheat crops in India and Nepal, and a second consecutive poor crop in Pakistan, were contrasted with record production in Bangladesh. Coarse grains were hardest hit by dry weather, with the harvest down about 7 percent. Generally strong producer price incentives, and intensive efforts to boost supplies of quality seed, fertilizer, and other inputs, likely prevented a more severe setback in cereal production in the region.

Indian Grain Surplus Reduces Region's Imports

The region's total imports of wheat and rice fell in 1984/85, as larger purchases by several countries were more than offset by India's termination of imports. India ended imports as consecutive excellent food grain harvests led to record stocks that remain well in excess of available storage capacity. Regional wheat imports fell more than 25 percent to about 4.2 million tons in 1984/85 (July/June), although Pakistan and Bangladesh both bought more wheat. Pakistan imported wheat commercially for the first time in 5 years.

Imports of U.S. wheat fell more than 30 percent to 1.6 million tons in 1984/85. The U.S. market share was about 38 percent, compared with 41 percent in 1983/84 and a 15-year-high of 72 percent in 1982/83. There was strong competition for commercial trade and nearly all U.S. sales were on concessional terms. All of Pakistan's commercial purchases were supplied by competitors in triangular barter arrangements. Pakistan was forced to curb its small wheat exports, but India began to seek markets for its large wheat surplus.

South Asian rice imports will fall from a 14-year-high of 1.33 million tons in 1984 to about 730,000 in 1985. Although Sri Lanka's imports will rebound sharply, India will end imports because of improved rice stocks, and Bangladesh's requirements will be smaller. During 1985, the region's rice imports continued to be supplied primarily by Thailand and Burma, with U.S. exports confined to concessional sales to Bangladesh. Regional rice exports declined further in 1985, to 1.15 million tons--the lowest level since 1978. Ample world supplies led to a decline in Pakistan's rice marketings, while India maintained its ban on coarse rice exports in order to rebuild stocks.

Little Growth in Cereal Imports Likely in 1985/86

South Asian cereal production is forecast to increase 4 percent in 1985/86, including

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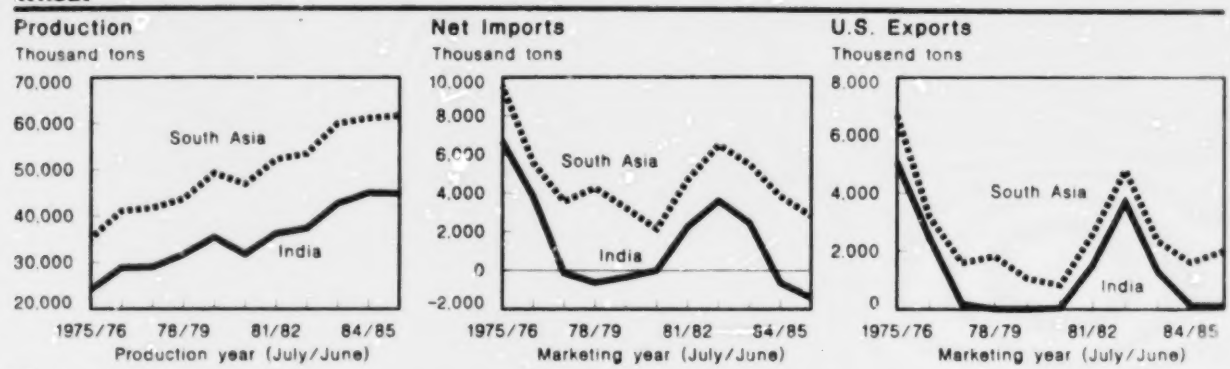
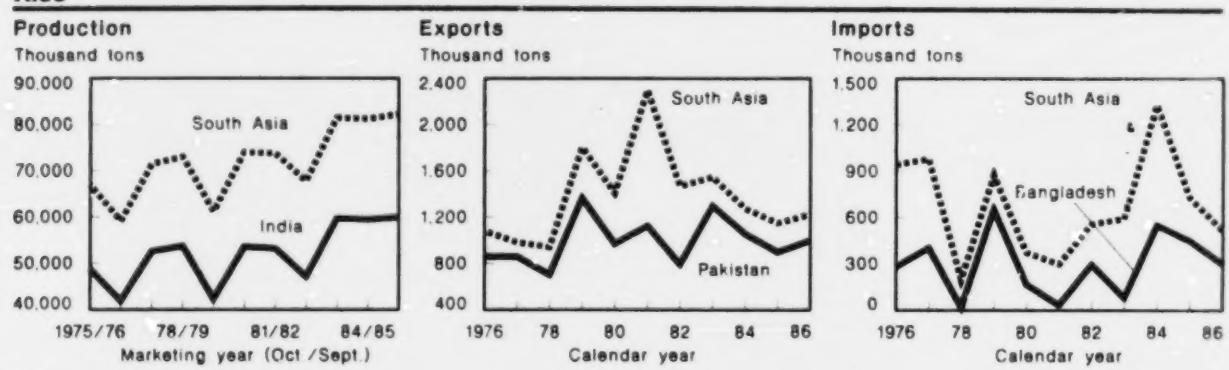
South Asia Commodity Highlights

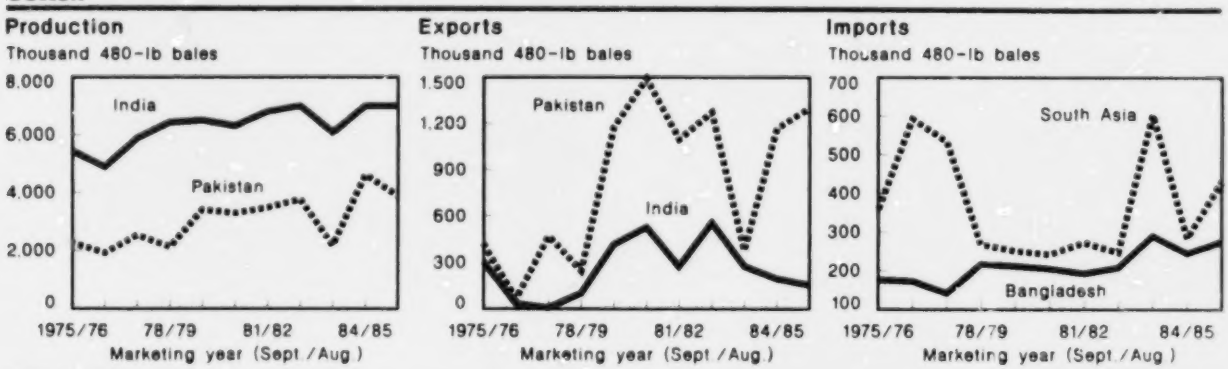
Wheat



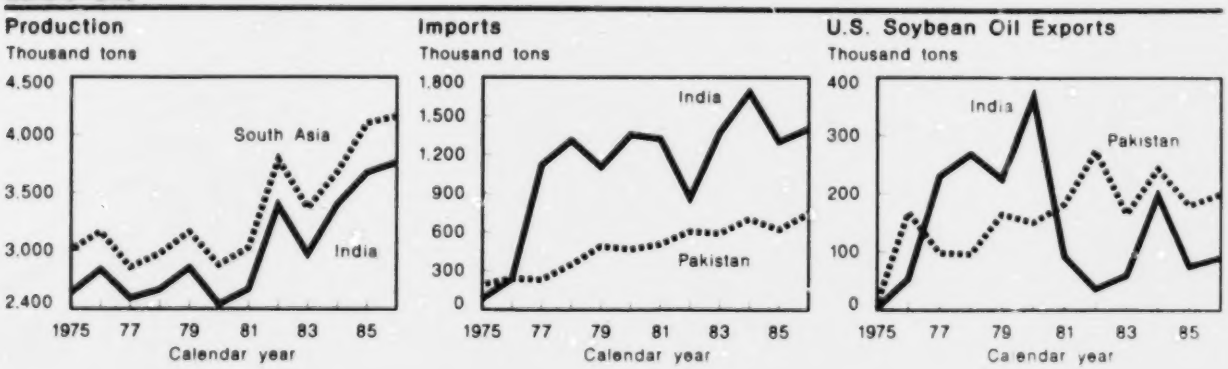
Rice



Cotton



Edible Oils



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record harvests of rice and wheat. The 1985 monsoon arrived late over northern areas of the subcontinent, but rains have been ample since mid-July and any planting delays are not expected to be significant. Record or near-record rice crops are expected everywhere except Sri Lanka, were poor winter weather and civil unrest may disrupt production for the second consecutive year. Average monsoon rainfall and more normal winter rains should lead to further gains in 1986 wheat harvests in India and Bangladesh, and a recovery in Pakistani production.

Little or no growth is expected in the region's total wheat imports in 1985/86 (July/June), but larger imports by Pakistan may prevent a decline. The poor 1985 wheat crop is expected to boost Pakistan's imports to about 2 million tons, but actual imports could be as low as 1.5 million if the outlook is good for a recovery in wheat production in 1986. Bangladesh's wheat imports are projected to fall, while Sri Lanka's imports continue to show little growth. India's wheat exports are projected to rise to about 1.5 million tons, and some may be sold in neighboring South Asian markets.

The region's rice imports, primarily by Bangladesh and Sri Lanka, are projected to fall to about 500,000 tons in 1986. A highly competitive world market is currently expected to allow little growth in South Asian rice exports in 1986. However, India may lift its temporary ban on coarse rice exports, and rising stocks and the need for export earnings may lead both India and Pakistan to become more aggressive in world rice markets.

Edible Oil Imports To Drop in 1985

South Asian vegetable oil imports surged 20 percent to a record of nearly 2.6 million tons in 1984, with both India and Pakistan making record purchases. Pakistan's import needs were boosted by a sharp decline in domestic production of cottonseed in 1983/84, while India's record purchases were motivated largely by a desire to curb domestic prices. Substantially higher world edible oil prices boosted South Asia's import bill roughly 75 percent to $1.9 billion in 1984, pressuring both Pakistan's and India's balance of payments and providing impetus for import substitution.

The region's palm oil imports remained at a record 1.1 million tons in 1984, while imports of soybean oil rose sharply to 1.15 million tons, 22 percent above the 1981 record. Soybean oil had a larger market share for the first time since 1981 because slowed growth in world palm oil supplies resulted in lower relative prices for soybean oil during much of the year. U.S. soybean oil exports to the region climbed more than 80 percent to a 4-year-high of 456,000 tons in 1984, benefiting from a tightening world market.

In 1985, South Asia's edible oil imports are forecast to fall 20 percent to under 2.1 million tons. Pakistan's needs will be reduced by a strong recovery in cotton production, while India's requirements will fall because of consecutive good oilseed harvests and sharply reduced pressure on domestic prices. Palm oil is likely to recapture a dominant share of the market because of improved supplies and generally lower prices relative to soybean oil. Palm oil imports are forecast to remain at 1.1 million tons, while soybean oil imports fall nearly 40 percent to an 8-year-low of about 700,000 tons.

Some Growth in Oil Imports Projected for 1986

The region's edible oil imports are projected to rise about 10 percent to 2.3 million tons in 1986. Pakistan's import demand is expected to rise, assuming domestic cotton production retreats significantly from the 1984/85 record. India's edible oil production is projected to grow more slowly following 2 years of above-trend expansion, leading to some growth in imports in order to maintain price stability. In addition to the actual size of 1985/86 oilseed harvests, a key question in the 1986 outlook is whether India and Pakistan attempt to slow edible oil imports, both to reduce foreign exchange outlays and to ensure adequate price incentives for their import substitution efforts.

With relatively strong growth in world palm oil supplies projected for 1986, palm oil is expected to continue to account for the bulk of the region's edible oil imports in 1986. Palm oil imports are projected to rise about 15 percent to 1.3 million tons, while soybean oil purchases rise 11 percent to about 780,000 tons.

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Cotton Harvests Rebound Strongly

After heavy rains and pest infestations severely damaged the 1983/84 crop, South Asian cotton production rebounded 40 percent to a record in 1984/85. The recovery was aided by good weather, strong price incentives, and intensive efforts to provide inputs in both India and Pakistan, the region's dominant producers. The recovery was particularly strong in Pakistan, where production exceeded the previous record by 22 percent. Pakistan resumed its role as a major cotton exporter, with exports estimated at 1.17 million bales (480 pounds each) in 1984/85 (August/July). Cotton stocks rose to a record 1.1 million bales.

Indian production rebounded to about 7 million bales, but low stocks and rising domestic demand kept supplies tight, particularly for short- and medium-staple varieties. India's exports of long-staple cotton, estimated at 195,000 bales in 1984/85, remained below most recent years. Cotton imports by Bangladesh, the region's only traditional large cotton importer, fell about 15 percent to 245,000 bales because of large stocks and foreign exchange constraints. U.S. cotton exports to the region fell sharply in 1984/85, as Pakistan not only terminated imports, but also resumed its competition with the United States and other suppliers in the Bangladesh market.

Smaller Cotton Crop Forecast for 1985/86

Regional cotton production is projected to decline in 1985/86. Although another record or near-record Indian crop is forecast, weak prices and possible shortages of irrigation water are expected to reduce Pakistani output to about 3.9 million bales. However, exportable supplies will remain large in Pakistan and exports are projected to rise to 1.3 million bales. Stocks will remain high, however, and Pakistan's highly competitive prices and critical need for export earnings could lead to more aggressive marketing and larger sales. Indian supplies are likely to continue to suffer from a varietal imbalance, and imports of about 100,000 bales of short-staple varieties, in addition to exports of long-staple varieties, are projected. Bangladesh's cotton imports are forecast to rise, assuming that foreign exchange outlays on food grains can be reduced.

U.S. Trade Prospects

U.S. Exports to South Asia Projected To Rise in 1985/86

U.S. farm exports to South Asia will decline more than 25 percent to about $641 million in U.S. fiscal year 1984/85, the lowest since 1980/81. India will account for the bulk of the decline, as it ends commercial purchases of U.S. wheat and also sharply reduces soybean oil purchases. Exports to Pakistan will also fall, as imports of U.S. cotton cease, and there is little growth in imports of U.S. soybean oil or wheat. Smaller exports to India and Pakistan will more than offset larger shipments of wheat to Bangladesh. A dominant share of U.S. exports of wheat and cotton, as well as a significant share of soybean oil, will be shipped under GSM-102 and concessional programs, including P.L. 480, and the World Food Program (WFP).

U.S. exports to the region are projected to rise nearly 20 percent to about $760 million in 1985/86, based primarily on the outlook for large concessional wheat sales to Pakistan. While the performance of the 1985 monsoon will be the principal determinant of the actual level of U.S. exports, the degree of U.S. competitiveness for wheat, soybean oil, and cotton sales also will be an increasingly important factor.

Wheat. U.S. wheat exports are projected to rise more than 30 percent to about 2.4 million tons in 1985/86, with Pakistan accounting for all of the increase. Grants and concessional financing for the equivalent of about 700,000 tons of wheat have been offered

Table 1. Total U.S. agricultural exports to South Asia (U.S. fiscal years)

	1982	1983	1984	1985 est.	1986 proj.
	Million dollars				
Afghanistan	.1	.1	--	--	--
Bangladesh	121.7	153.2	157.1	211.3	196.0
India	309.9	762.1	375.6	147.7	170.2
Nepal	2.2	2.5	2.6	2.5	2.8
Pakistan	218.0	214.8	285.4	230.5	343.3
Sri Lanka	59.5	37.0	46.3	49.4	48.5
Total	711.4	1,169.7	867.0	641.4	760.8

-- = less than $50,000.

SOURCES: U.S. Department of Commerce, Bureau of the Census; ERS estimates.

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Table 2. U.S. exports of wheat and products to South Asia (U.S. fiscal years)

	1982	1983	1984	1985 est.	1986 proj.
	1,000 tons				
Afghanistan	0	0	0	0	0
Bangladesh	421	803	600	1050	900
India	1,293	4,084	1,189	170	170
Nepal	3	8	4	2	2
Pakistan	234	280	174	350	1,100
Sri Lanka	355	214	269	250	250
Total	2,306	5,389	2,236	1,822	2,422

SOURCES: U.S. Department of Commerce, Bureau of the Census; ERS estimates.

Table 3. U.S. exports of soybean oil to South Asia (U.S. fiscal years)

	1982	1983	1984	1985 est.	1986 proj.
	1,000 tons				
Afghanistan	.1	--	--	--	--
Bangladesh	34.0	23.7	14.9	18.0	18.0
India	68.4	55.0	170.2	75.0	90.0
Nepal	.1	.0	.1	.2	.2
Pakistan	261.2	236.7	216.1	200.0	200.0
Sri Lanka	.5	1.0	.9	.5	.5
Total	364.3	316.4	402.2	293.7	308.7

-- = less than 50 tons.

SOURCES: U.S. Department of Commerce, Bureau of the Census; ERS estimates.

to Pakistan, and WFP shipments are projected at about 300,000 tons. Additional imports may not be needed if the outlook for the 1986 wheat crop is good, and stiff competition, particularly in the form of barter trades, is likely for any further sales. A good 1985 monsoon should lead to a decline in U.S. wheat marketings in Bangladesh if concessional programs remain at current levels, and stiff competition for commercial sales could result in an even larger decline. Sri Lanka's imports of U.S. wheat are largely on concessional terms and are projected to remain unchanged. Although P.L. 480, Title II, shipments will continue, India's huge wheat surplus will likely rule out other imports for 2-3 years. No Indian wheat has been sold to neighboring countries so far, but any future sales could displace U.S. wheat.

Soybean oil. Exports of U.S. soybean oil to South Asia are projected to rise only marginally in 1985/86. Although import demand for edible oils is projected to rise in both India and Pakistan, strong price competition from Malaysian palm oil is expected to reduce soybean oil's share of total purchases. In addition, competition from Brazilian soybean oil will likely prevent any large increase in the U.S. share of soybean oil trade. Pakistan is expected to continue to account for most U.S. soybean oil exports to the region, aided by concessional programs. Opportunities for sales to India, a commercial buyer, probably will remain limited. In addition to the size of 1985/86 oilseed harvests in the region, prospects for larger U.S. soybean oil sales hinge on production prospects in Malaysia and Brazil, as well as increases in concessional program levels.

Cotton. With record exportable supplies in Pakistan, U.S. cotton exports to South Asia in 1985/86 are expected to be limited primarily to concessional sales to Bangladesh. U.S. cotton exports to South Asia are estimated at 84,500 bales in 1984/85 and about 86,000 in 1985/86. Indian cotton import demand during 1985/86 is expected to be met by Pakistan or Sudan, possibly on barter terms.

Other. Other commodities accounting for significant shares of U.S. farm exports to South Asia are rice (estimated at $30 million in 1984/85), nonfat dry milk ($12 million), blended food products ($28 million), inedible tallow ($29 million), and pulses ($11 million). Rice, nonfat dry milk, and blended food products are shipped through concessional programs, and their value is expected to remain roughly constant in 1985/86. Tallow exports, primarily to Pakistan, are projected to rise to about $40 million in 1985/86. Stronger growth in U.S. sales will likely depend on India lifting the ban on tallow imports it imposed in 1983. Pulse exports to India, which have grown steadily due to a chronic domestic shortage and a liberal import policy, will probably continue to rise. [*Maurice R. Landes (202) 786-1614*]

BANGLADESH

Economic Growth Holds Steady in 1984/85

Record food grain crops and solid growth in the service sector boosted real GDP by 3.8 percent in 1984/85 (July/June), about the same as the previous year. Record winter rice and wheat harvests offset severe flood and rain damage to the spring and summer rice crops,

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and to the jute and sugarcane crops. However, growth in total farm production slowed to about 2 percent, compared with an average of 3.3 percent during 1980/81–1983/84. Growth in industrial output fell to about 2.9 percent because of a slowdown in jute and sugar processing and financial constraints among many private sector firms.

The Government tightened monetary policy during 1984/85 in an attempt to control inflationary pressures caused by strong growth in the money supply during the previous 2 years, and by food grain production shortfalls in the summer of 1984. Interest rate restrictions and tight ceilings on advances by domestic banks restrained credit expansion to about 20 percent, compared with 27.5 percent during 1983/84. Control of inflation continued to be a key area of concern. Sharp increases in inflation create severe hardship among Bangladesh's many low-income consumers, make it difficult to achieve real savings and investment targets, and also tend to compound the price distortions caused by extensive subsidies.

The inflation rate, influenced by previous strong growth in the money supply, nonetheless increased to 15 percent during 1984/85, the highest since 1980/81. Although prices of coarse rice, the principal food staple, rose sharply prior to the flood-damaged summer harvests, record winter harvests and large food grain imports eventually led to a small decline in annual average rice prices in real terms during 1984/85. Real wheat prices also fell, but jute prices more than tripled because of a poor harvest.

Deterioration of Balance of Payments

Following an improvement in 1983/84, Bangladesh's balance of payments position deteriorated in 1984/85, creating a serious challenge for economic policy. Although export earnings, led by higher jute prices and larger nontraditional exports of garments, increased more than $80 million, imports rose about $250 million, in part because of larger food grain purchases. The expanded trade deficit, coupled with a 22-percent drop in worker remittances to about $430 million, boosted the current account deficit to $1.5 billion, nearly 50 percent greater than in the previous 2 years. Exchange rate developments contributed to the larger trade deficit.

Table 4. Economic indicators for Bangladesh

	FY78-FY83 average	FY84	FY85 est.	FY86 proj.
Gross domestic product (billion Taka)				
Current prices	186.7	276.9	329.5	375.6
1972/73 prices	66.1	73.8	76.6	78.9
(% change)	(3.9)	(3.9)	(3.8)	(3.0)
Indices of production				
Agriculture:				
(1976-78=100)	106.8	119.0	121.4	125.4
(% change)	(3.6)	(2.6)	(2.0)	(3.3)
Industry:				
(1973/74=100)	137.0	149.0	153.3	157.9
(% change)	(3.5)	(6.9)	(2.9)	(3.0)
Consumer price index (1973/74=100)				
All items	245.3	368.3	423.5	470.1
(% change)	(13.0)	(13.0)	(15.0)	(11.0)
Food items	238.2	342.5	393.9	437.2
(% change)	(13.1)	(9.5)	(15.0)	(11.0)
Foreign trade ($ million)				
Exports	641	822	905	960
(% change)	(10.0)	(19.8)	(10.1)	(6.1)
Imports	2,115	2,353	2,700	2,735
(% change)	(20.0)	(1.9)	(14.7)	(1.3)
Trade balance	-1,474	-1,531	-1,795	-1,775
For. reserves	272	516	388	360
Exch. rate				
(Taka/$)	17.66	25.00	26.50	28.00
Population (millions)				
	87.15	95.90	98.30	100.76
(% change)	(2.79)	(2.79)	(2.50)	(2.50)

Note: Data are for Bangladesh fiscal years. FY86 is the year ending June 30, 1986.

Sources: Government of Bangladesh, World Bank, International Monetary Fund, ERS estimates.

Although the taka depreciated in nominal terms, its real effective trade weighted exchange rate appreciated, and tended to encourage imports and discourage exports.

Record commercial food grain purchases in 1984/85 of about $245 million, with 25 percent in cash and 75 percent on a deferred payment basis, were a key source of increased balance of payments pressures. The substantial deferred food grain debt is due to be repaid during 1985/86–1987/88, and will increase medium-term balance of payments management problems. The chronic current account deficit continues to be financed almost entirely by foreign aid. In 1984/85, aid disbursements rose an estimated 5.6 percent to $1.34 billion, following a 5.7-percent

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decline in 1983/84. Despite larger aid disbursements, foreign exchange reserves fell by the end of 1984/85.

Record Winter Food Grain Harvests

Despite the adverse effects of a series of floods, food grain output was up 1.7 percent to a record 16 million tons in 1984/85. Rice production was unchanged from the previous year, but wheat output increased 21.7 percent. Three successive rice crops were damaged in the spring and summer of 1984, resulting in total losses of around 1.5 million tons. However, higher yields in areas not affected by the floods, and compensatory plantings of winter wheat and rice, more than offset these losses. Many farmers boosted winter plantings because of higher market prices, and to meet subsistence consumption needs following the poor summer crop.

Food grain production remains highly vulnerable to the vagaries of the monsoon. However, the large winter harvests in 1984/85, and the increase in overall production despite very adverse weather, reflect some improvement in the ability to compensate for poor weather. This improvement has resulted from diversification from rice to wheat, and from an expansion of minor irrigation facilities that has encouraged major increases in winter rice production. However, unless Bangladesh is able to boost annual growth in food grain production from the 3-percent rate observed during 1973/74-1984/85, to 4.0-4.5 percent over the next few years, a chronic gap between consumption requirements and production will remain.

Table 5. Production of principal crops in Bangladesh 1/

	1982/83	1983/84	1984/85 est.	1985/86 proj.
	1,000 tons			
Rice	14,216	14,500	14,514	15,000
Wheat	1,095	1,210	1,460	1,500
Coarse grains	52	52	52	52
Cereals	15,363	15,762	16,026	16,552
Jute	886	907	830	1,080
Sugarcane	7,358	7,100	6,500	7,000
Tea	41	41	44	41

1/ Production reported by Bangladesh crop years (July/June).

SOURCES: Government of Bangladesh, USDA estimates.

Food Grain Distribution and Imports Soar

The three successive poor rice crops during the spring and summer of 1984 created a tight food grain supply situation in late 1984. There was strong upward pressure on prices before the fall rice harvest and the seasonal, postharvest drop in prices was restrained to one-fourth of normal. The Government is highly sensitive to food grain price movements and normally responds to production shortfalls by releasing extra quantities of food grains through open market operations and ration shops. During 1984/85, government efforts to stabilize prices by increasing distributions were largely successful, with only modest movements in rice prices from October 1984 through July 1985. Distribution of food grains, facilitated by a sharp increase in imports, reached a record 2.7 million tons, and per capita consumption reached 184 kilograms, the highest since 1980/81.

To achieve the high level of public distribution and maintain minimum stocks of about 1 million tons, the Government imported

Table 6. Summary of government wheat and rice operations in Bangladesh (July/June)

	Procure-ment	Net imports	Public dist.	Ending stocks
	1,000 tons			
Wheat				
1980/81	180	993	1,031	542
1981/82	13	1,111	1,286	244
1982/83	24	1,527	1,438	504
1983/84	127	1,876	1,551	710
1984/85 est.	210	2,000	2,228	622
1985/86 for.	100	1,600	1,673	600
Rice				
1980/81	864	84	516	697
1981/82	290	144	732	338
1982/83	170	317	457	301
1983/84	149	180	500	90
1984/85 est.	106	714	486	451
1985/86 for.	223	200	472	267
Total				
1980/81	1,044	1,077	1,547	1,239
1981/82	303	1,255	2,018	582
1982/83	194	1,844	1,895	805
1983/84	276	2,056	2,051	800
1984/85 est.	316	2,714	2,714	1,073
1985/86 for.	323	1,800	2,145	867

Note: Annual supply and use data do not balance because of storage losses and reporting lags.

SOURCES: Government of Bangladesh, ERS estimates.

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2.7 million tons of food grains valued at $590 million during 1984/85. Food aid donations were timely, but limited. Hence, record commercial food grain imports of 1.3 million tons were arranged to meet distribution needs. U.S. wheat accounted for nearly 50 percent of total wheat imports. The U.S. share of all food grain imports was 39 percent, slightly above the previous 3-year average of 37 percent. Food grain stocks at the end of June 1985 were close to the government target of 1.25 million tons.

Government Price Policy Supports Producers

The Government attempted to provide stronger price incentives for food grain producers during 1984/85. While increases in support prices were generally smaller than estimated increases in production costs, price policy continued to be more supportive than during the late 1970's. During 1984/85, the paddy procurement price was raised 15 percent to 4,421 taka ($167) per ton, while the wheat price was raised 12 percent to 4,340 taka ($164) per ton. During the year, domestic market prices for rice and wheat remained close to the landed cost of imports. With the current price structure, policymakers will have little scope for further boosting price incentives without also increasing the economic subsidy (the difference between domestic prices and comparable world prices) to food grain producers.

Facing large budgetary losses on fertilizer subsidies, the Government increased fertilizer prices in 1984/85, reducing the subsidy to 17 percent of cost. However, compared with many other countries, the food grain/fertilizer price ratio continued to be favorable to producers.

Food Grain Production Expected To Rise in 1985/86

The 1985/86 rice crop is projected at 15 million tons, assuming normal weather for the spring and summer crops, and another large production increase for winter rice because of expanded irrigation facilities. The 1985/86 wheat crop is projected at 1.5 million tons, assuming continued effective support of incentive prices and timely distribution of inputs. Procurement prices will likely be adjusted upward to account for increases in real production costs and to encourage adoption of new technology.

The production forecasts suggest that growth in total food grain supply will grow faster than population. Food grain distribution is projected to decline as demand for subsidized cereals falls because of improved domestic supplies. Budgetary pressures may lead to higher issue (retail) prices in order to control subsidy outlays, further dampening demand. Food grain imports are expected to decrease sharply to about 1.7 million tons in 1985/86, with aid sources likely to supply 1 million tons.

Vegetable Oil and Cotton Imports Slump

Domestic vegetable oil production increased 7 percent to 60,000 tons in 1984/85. Edible oil imports fell 22 percent to 118,000 tons, primarily because of higher world prices and diversion of foreign exchange to food grain purchases. Smaller food grain import requirements and moderating world oil prices should encourage higher imports of vegetable oil in 1985/86. Imports of palm oil are projected at 65,000 tons, up 15,000, and soybean oil at 60,000 tons, up 10,000.

Record opening cotton stocks of 110,000 bales (480 pounds each), or about 5 months of consumption, contributed to an 8-percent drop in 1984/85 imports to 245,000 bales. Since the denationalization of 22 mills in 1983, growth in cotton consumption has continued strong because of increased private mill demand. Cotton imports in 1985/86 are projected at 275,000 bales.

U.S. Farm Exports to Bangladesh Rise

In U.S. fiscal year 1984/85, U.S. farm exports to Bangladesh increased about 35 percent to $211 million, largely because of sales under the blended credit program. Wheat exports reached 1.05 million tons, up 75 percent from 1983/84, more than offsetting a decline in cotton sales. Unless there is another serious crop shortfall, U.S. wheat exports are likely to decline to 900,000 tons in 1985/86. Little or no growth is expected in cotton or vegetable oil exports, and total exports are projected to decline to under $200 million.

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Economic Austerity Policies To Slow Growth in 1985/86

Tight monetary and fiscal policies are expected in 1985/86 to control inflation, maintain a minimum level of foreign exchange reserves, and align government expenditures with limited available resources. Unless food grain production, foreign remittances, exports, and foreign assistance are stronger than now expected, GDP growth will probably be constrained to no more than 3.0–3.5 percent.

Although the projected 3.4-percent increase in food grain production is higher than the rate sustained in the past, other economic indicators are less favorable. Worker remittances, a key source of foreign exchange, are expected to rise only slightly to $480 million, reflecting slowed growth in employment opportunities in the Middle East. Growth in export earnings will probably be limited to 6 percent by lower world prices for tea and jute, and slower growth in nontraditional exports--primarily garments (now restrained by quotas). Foreign aid pledges for 1985/86 indicate no change from 1984/85. Given the limitations on foreign aid and a poor foreign exchange position, total imports are expected to rise only about 1 percent. [*Richard F. Nehring, (202) 786-1614*]

Table 7. Economic indicators for India

	FY78-FY83 average	FY84	FY85 est.	FY86 proj.
Gross domestic product (Rs. billion)				
Current prices	1,087	1,727	1,935	2,204
1970/71 prices	502.9	581.1	604.4	637.6
(% change)	(4.0)	(7.4)	(4.0)	(5.5)
Indices of production				
Agriculture:				
(1968-70=100)	133.9	155.8	157.4	162.9
(% change)	(3.4)	(13.6)	(1.0)	(3.5)
Industry:				
(1970=100)	155.5	183.4	196.2	211.9
(% change)	(4.3)	(5.5)	(7.0)	(8.0)
Consumer price index (1960=100)				
All items	392.2	547.0	585.0	626.0
(% change)	(8.4)	(12.6)	(7.0)	(7.0)
Food items	411.2	581.0	610.0	641.0
(% change)	(8.3)	(14.4)	(5.0)	(5.0)
Foreign trade ($ million)				
Exports	7,759	8,355	8,724	9,000
(% change)	(6.0)	(.8)	(4.4)	(3.2)
Imports	12,148	14,040	14,501	14,800
(% change)	(17.2)	(-1.7)	(3.3)	(2.1)
Trade balance	-4,389	-5,685	-5,777	-5,800
For. reserves	5,996	5,847	6,150	5,700
Exch. rate (Rs./$)	8.58	10.31	11.90	13.00
Population (millions)				
	674.81	733.25	749.56	766.23
(% change)	(2.58)	(2.27)	(2.22)	(2.22)

1/ Trade data exclude imports and exports of petroleum under temporary swap arrangements.

Note: Data are for Indian fiscal years. FY86 is year ending March 31, 1986.

SOURCES: Government of India, World Bank, International Monetary Fund, ERS estimates.

INDIA

Growth Remains Above Trend in 1984/85

Growth in India's real GDP slowed to about 4 percent in 1984/85 (April/March), following a sharp 7.4-percent expansion in 1983/84. After a strong 14-percent recovery in 1983/84, farm sector output grew only about 1 percent, primarily because poor rainfall in some areas reduced food grain production marginally following 1983/84's record harvests. The performance of infrastructural sectors generally improved in 1984/85, including stronger gains in power generation and coal output. Growth in crude petroleum production slowed to about 10.2 percent, compared with an average of 35 percent the previous 3 years, because of the higher production base achieved in recent years and reduced scope for boosting recovery from known reserves. Growth in industrial output increased to about 7 percent as a result of strengthening demand and higher capacity utilization. Manufacturing output rose about 6 percent, including strong gains in chemicals, engineering goods, basic metals, and electronics, but remained substantially below the 8-percent target.

Inflation Slows

General inflation in consumer prices slowed to about 7 percent in 1984/85, primarily because food prices rose more slowly. Record supplies led to significant declines in real prices of cereals, cotton, tea, and edible oils that offset higher prices for sugar and pulses. The primary sources of inflationary pressures were higher

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administered prices for electricity, iron, steel, and cement, as well as relatively high growth in the money supply. Although there were tighter controls on credit, further expansion in net bank credit to the Government led to stronger monetary growth. Increasing budgetary deficits resulting from efforts to maintain development outlays and also meet larger expenditures on such items as defense, interest on debt, and fertilizer and food subsidies have emerged as a threat to price stability. The overall deficit of the central Government increased sharply in 1984/85, and a further increase may fuel inflationary pressures in 1985/86.

Balance of Payments Improved But Tight

After a period of severe strain following the 1979 oil price shock, India's balance of payments showed gradual improvement for the third consecutive year in 1984/85. Exports grew about 4.4 percent because of increased earnings from spices, tea, tobacco, leather, cotton textiles, and garments. Imports rose about 3.3 percent, with a further increase in petroleum self-sufficiency, and smaller purchases of cereals and steel partially offsetting larger bills for edible oil and fertilizer imports. Although stronger exports helped contain the trade deficit, lack of price and quality competitiveness and a relatively strong exchange rate for the rupee compared with currencies in principal foreign markets continued to hinder export performance.

Improvement in the trade account was partially offset by some deterioration in net invisible receipts, and in the capital account. Growth in net invisibles slowed because of smaller gains in worker remittances and higher interest payments on foreign debt. As a result, the current account deficit remained at about $2.5 billion. Inflows of deposits by nonresident Indians slowed because of higher interest rates abroad, and remittances were affected by a slowdown in economic activity in the Middle East. Interest payments rose largely because a larger share of foreign borrowing is now on commercial terms. Total debt service obligations increased from 9 percent of current receipts during 1979/80-1981/82 to about 16 percent in 1984/85 because of harder terms on foreign borrowing and the beginning of scheduled repayments on $4 billion borrowed from the International Monetary Fund (IMF) during 1981/82-1983/84.

Near-Record Food Grain Harvests in 1984/85

Total food grain production is estimated at about 148 million tons in 1984/85, 2 percent below 1983/84's record-shattering harvest. Poor monsoon rainfall in some areas and abnormally dry winter weather led to the decline. An intensive effort to boost supplies of inputs, another strong increase in fertilizer use, and steady gains in irrigation prevented a more serious setback. The 1984/85 rice crop is estimated at 59.5 million tons, marginally below the 1983/84 record, with the effects of a poor monsoon in parts of south and central India largely offset by good weather and increased use of HYV's and inputs in other regions. Coarse grain harvests were hardest hit by the dry weather, with production falling about 7 percent.

The 1984/85 wheat crop, harvested in April-May 1985, is estimated at 45 million tons, marginally below the 1983/84 record, primarily because of abnormally dry winter weather in northern India. Although about 70 percent of wheat area is irrigated, reduced

Table 8. Production of selected crops in India 1/

	1982/83	1983/84	1984/85 est.	1985/86 proj.
		1,000 tons		
Rice	47,116	59,769	59,500	60,000
Wheat	42,794	45,148	45,000	47,500
Corn	6,549	7,924	7,200	7,500
Millet	8,583	12,328	11,000	11,500
Sorghum	10,753	11,934	11,300	12,000
Barley	1,897	1,787	2,000	2,050
Cereals	117,662	138,890	136,000	140,550
Pulses	11,857	12,655	12,200	12,800
Food grains	129,519	151,545	148,200	153,350
Peanuts	5,282	7,284	6,500	7,000
Rapeseed	2,207	2,566	2,900	3,000
Cottonseed	3,047	2,647	3,045	3,045
Soybean	491	583	750	850
Sesameseed	552	618	550	620
Oth. oilseeds	1,457	1,656	1,770	1,830
Oilseeds	13,036	15,354	15,515	16,345
Cotton 2/	7,004	6,086	7,000	7,000
Sugarcane	189,506	177,020	165,000	175,000
Tea	565	586	635	650
Tobacco	520	582	497	450

1/ Data reported by Indian production years (July/June). 2/ Production in 1,000 480-lb bales.

SOURCES: Ministry of Agriculture and Cooperation, Government of India; USDA estimates.

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yields in rainfed areas probably offset further gains in use of quality seeds, plant protection technology, and fertilizer. Production of pulses, grown primarily during the winter on rainfed land, fell an estimated 4 percent from the 1983/84 record.

Food grain producers continued to benefit from supportive price policies and improved input supplies and farm extension efforts in 1984/85. The procurement price for coarse paddy was raised 3.8 percent to Rs 1,370 ($110) per ton and the wheat price was raised 3.3 percent to Rs 1,570 ($126) per ton. Farmers in Punjab, the major surplus state, received additional premiums as compensation for the disruptive effects of local civil unrest. Production costs were largely held in check as the 7.5-percent fertilizer price reduction announced in 1983 remained in effect, and petroleum prices were unchanged. Relatively small increases in wheat procurement prices and weak open market prices during the last 2 years have likely dampened wheat production incentives, leading to some shift towards higher-priced competing crops, including rapeseed and pulses.

Food Grain Procurement and Stocks Shatter Record

Consecutive excellent crops and weak open market prices at harvesttime led to record government purchases of rice and wheat from 1984/85 crops. Rice procurement is forecast at 9.8 million tons in 1984/85 (October/September), 25 percent above the 1983/84 record. Wheat procurement from the 1985 crop is forecast at 10.5 million tons during 1985/86 (April/March), 18 percent above the 1984/85 record. With storage facilities already near capacity following record 1983/84 harvests, heavy market arrivals of wheat during May-June 1985 led to acute storage and transport problems in the major surplus areas of Punjab, Haryana, and Uttar Pradesh.

Record procurement, coupled with a further decline in distribution of subsidized wheat and rice through the public distribution system (PDS), boosted government stocks to a record 29 million tons by July 1985. Total PDS sales of subsidized wheat and rice reached the lowest level in 4 years, as declining prices led many consumers to prefer the quality and convenience of open market purchases. Market prices of both wheat and rice averaged 12 percent lower in real terms during 1984, and continued to fall in the first half of 1985.

Table 9. Summary of government wheat and rice operations in India (July/June)

	Procurement	Imports	Exports	Public dist.	Ending stocks
	Million tons				
Wheat					
1980/81	6.41	.05	.05	6.84	7.73
1981/82	7.57	2.26	--	6.88	10.15
1982/83	8.38	3.63	.08	8.01	13.61
1983/84	9.23	2.50	.01	6.97	17.94
1984/85 est.	10.50	--	.30	6.20	21.03
1985/86 for.	10.00	--	1.50	7.30	21.00
Rice					
1980/81	5.66	--	.87	5.64	5.85
1981/82	7.19	--	.80	7.07	5.12
1982/83	7.02	--	.21	7.98	3.84
1983/84	7.47	.96	--	7.26	4.59
1984/85 est.	9.80	.10	--	6.30	7.95
1985/86 for.	9.00	--	.50	6.40	9.70
Total					
1980/81	12.07	.05	.92	12.48	13.58
1981/82	14.76	2.26	.80	13.95	15.27
1982/83	15.40	3.63	.29	15.99	17.45
1983/84	16.70	3.46	.01	14.23	22.53
1984/85 est.	20.30	.10	.30	12.70	28.98
1985/86 for.	19.50	.00	2.00	13.50	30.70

-- = none or negligible.
Note: Annual supply and use data do not balance because of storage losses and reporting lags.

SOURCES: Government of India, Attache reports, ERS estimates.

Government stocks in July 1985 consisted of 21 million tons of wheat and nearly 8 million tons of rice. Rice stocks were near target for the first time since 1979, but wheat stocks and total stocks were 7-8 million tons above target. With covered storage capacity limited to 19-20 million tons, large quantities of food grains, primarily wheat, will be stored outside under tarpaulins during the 1985 monsoon and exposed to significant losses. Record stocks, slow distribution, and higher interest charges on funds borrowed to procure food grains led to a sharp increase in the food grain subsidy to more than Rs 12 billion ($1 billion) in 1984/85.

Measures To Reduce Stocks Include Exports

In response to the wheat surplus, the Government announced policy changes during

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1984/85 aimed at stimulating domestic use and exports. Restrictions on open-market purchases by modern flour mills were lifted, as were all movement and stockholding restrictions on private traders. Also, for the first time, private traders were permitted to export wheat and flour, subject to minimum export prices of $128 per ton for wheat and $140-$164 per ton for various grades of wheat flour. In addition, efforts will be made to distribute more wheat through the PDS and food-for-work programs in rural areas.

A highly competitive world market and the generally poor quality of Indian wheat hinder export prospects, particularly for private traders. Government exports arranged so far consist of a 500,000-ton sale to the Soviet Union announced in late 1984 and a 150,000-ton sale to Romania, both on bilateral rupee accounts, a 100,000-ton donation for African relief, and a 50,000-ton loan to Vietnam. No sales have been made by private traders. Actual shipments during 1984/85 (July/June) are estimated at 300,000 tons.

The Government is actively seeking markets for wheat in neighboring Middle Eastern and Asian countries, and a deal for 2.5 million tons of additional exports to the Soviet Union is reportedly under discussion. However, transport and handling bottlenecks may preclude annual exports of more than about 2 million tons. With improved rice stocks, no new rice imports were arranged in 1984/85, but the ban on coarse rice exports implemented following the 1982/83 drought remains in effect. Exports of basmati rice were hampered by poor quality and are estimated at 200,000 tons in 1984 and 100,000 in 1985.

Record Food Grain Output and Larger Exports Projected

Assuming an average 1985 monsoon, projections indicate a record food grain harvest in 1985/86--including record crops of rice and wheat. The 1985 monsoon arrived somewhat late over northern India, but cumulative rainfall through July was normal or above in most major producing areas and no significant delay in plantings is expected. Further improvement in supplies of fertilizer, quality seeds, and other inputs, and continued adequate rainfall, could result in achievement of the 160-million-ton production target.

Record or near-record production in 1985/86 may lead to a further increase in cereal stocks. Continued weak market prices would likely result in heavy procurement in price support operations and limited growth in PDS sales, although more allocations to rural areas could lead to some increase in total distribution. Even with wheat exports projected at 1.5 million tons, wheat stocks are likely to remain near 21 million tons. As a result, the Government may opt for more aggressive export marketing tactics in order to reduce burdensome storage costs. Larger wheat exports are likely in 1985/86 even if there is a poor 1985 monsoon. A record or near-record 1985/86 rice crop would likely lead to another sharp rise in rice stocks because of sustained high procurement. In this event, the ban on coarse rice exports may be lifted, and India's highly competitive prices could lead to a renewal of large-scale exports.

Good Oilseed Harvests in 1984/85

After rebounding nearly 18 percent to a record in 1983/84, total oilseed production increased about 1 percent in 1984/85. Poor monsoon rainfall prevented a larger harvest, despite continued high prices for most oilseeds relative to competing crops, government promotion efforts, and substantial gains in some crops. The kharif (spring planted-fall harvested) peanut crop, which is grown on rainfed land and accounts for about 70 percent of total output, was the hardest hit by dry weather in south and central India. Total peanut production fell about 11 percent, although there was another increase in the irrigated rabi (fall planted-spring harvested) crop. The rabi rapeseed and mustardseed harvest is estimated at 2.9 million tons, 13 percent above the 1983/84 record, with stronger prices relative to competing crops and new varieties continuing to stimulate production. Harvests of nontraditional oilseeds, primarily soybeans and sunflowers, are also estimated at records, with generally good weather and strengthened extension efforts boosting area and yields.

Edible Oil Imports To Retreat from 1984 Record

Imports of edible oils rose sharply to a record of nearly 1.7 million tons in 1984. The record imports were largely unanticipated, given a 14-percent recovery in production

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during 1983/84 and the Government's normal pattern of reducing allocations of imported oils to the vanaspati (hydrogenated oil) industry and the PDS in good production years. During 1984, however, allocations of imported oils to the PDS rose to a record of about 950,000 tons, and allocations to the vanaspati industry were sustained at a near-record pace. The high level of imports is attributed, in part, to efforts to stabilize prices prior to the general elections in December 1984. Demand was also affected by a ban on imports of inedible tallow, implemented in late 1983 to prevent its illegal use in edible products, that necessitated diversion of domestic edible oils to nonedible uses.

The heavy influx of imports boosted total disappearence of oils nearly 14 percent, by far the largest increase since large-scale imports began in 1977. While annual average prices for oilseeds and oils rose 6.6 percent and 3 percent, respectively, in real terms in 1984, prices fell sharply late in the year. And, in the first half of 1985, real prices of oilseeds averaged 10 percent lower than in the first half 1984, while edible oil prices averaged 14 percent lower.

With a further 8-percent increase in edible oil production estimated for 1984/85, and sharply reduced pressure on domestic prices, imports are forecast to drop to 1.3 million tons in 1985. Large stocks with the State Trading Corporation (STC) and smaller allocations to the PDS and the vanaspati industry, which were already in evidence during early 1985, are expected to lead to the decline.

Short world supplies and high relative prices for palm oil led to a decline in palm oil's share of India's record edible oil imports in 1984. Larger imports of soybean oil met the demands of the vanaspati industry, while increased purchases of rapeseed and sunflower oils met PDS needs. However, during 1985, soybean oil imports are forecast to drop sharply because of improved supplies of palm oil and continued competitive prices for rapeseed oil. Relatively low-priced imported palm and rapeseed oils, together with large palm oil stocks, are expected to meet the reduced allocations for the PDS, as well as some of the requirements of the vanaspati industry.

Table 10. Supply and distribution of edible oils in India (calendar year)

	1982	1983	1984	1985 est.	1986 for.
	1,000 tons				
Opening stocks	170	180	170	310	250
Production					
Coconut	230	213	189	214	220
Cottonseed	251	269	242	279	274
Groundnut	1,615	1,218	1,654	1,535	1,617
Linseed	140	108	127	139	152
Nigerseed	46	34	51	44	44
Rapeseed	714	662	671	969	900
Safflower	90	85	100	96	98
Sesame	179	168	187	166	188
Soybean	73	76	90	117	132
Sunflower	54	78	92	119	135
Total	3,392	2,974	3,403	3,678	3,760
Imports 1/					
Coconut	14	10	10	0	0
Palm	425	620	624	650	750
Rapeseed	64	132	250	200	200
Soybean	358	607	750	450	450
Sunflower	0	0	60	0	0
Other	1	4	0	0	0
Total	862	1,373	1,694	1,300	1,400
Total supply	4,424	4,527	5,267	5,288	5,410
Exports	0	0	0	0	0
Domestic disappearance	4,244	4,357	4,957	5,038	5,160
Per cap.a(kgs)	5.9	5.9	6.6	6.6	6.6
Ending stocks	180	170	310	250	250

1/ Imports based on partner-country export data.

SOURCES: FAS, partner-country trade data, ERS estimates.

Little Growth in Oil Imports Projected for 1986

Assuming average weather and a continuation of relatively strong producer price incentives, oilseed production is forecast to rise about 5 percent in 1985/86. Larger harvests of peanuts, rapeseed, and soybeans are expected. Early season rainfall was poor in some oilseed areas, but good rains beginning in mid-July over most of India should support a larger harvest. Although 1984's good harvests and large imports reduced oilseed prices, smaller oil imports in 1985 should lead to higher prices by late 1985. Meanwhile, prices for competing cereal crops are likely to remain relatively low.

Edible oil production is projected to rise to 3.8 million tons in 1986, with imports

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projected at 1.3–1.4 million tons. Domestic demand is likely to strengthen, but the Government is expected to resume its past policy of holding imports to a level that permits some real increase in domestic prices--both to stimulate production and to manage outlays of foreign exchange. With another large increase in world palm oil supplies forecast for 1986, palm oil is likely to continue to account for a dominant share of imports. A recent policy change calling for exporters to purchase Indian goods in exchange for Indian purchases of soybean oil reflects growing concern with the impact of large oil imports on the trade deficit. If competitors are more able to arrange suitable countertrades, prospects for commercial U.S. soybean oil sales may be reduced.

Cotton Production Rebounds But Supplies Remain Tight

After plunging to 6.1 million bales (480 pounds each) in 1983/84 because of unseasonal harvest rains and heavy pest infestation, cotton production rebounded strongly. The 1984/85 crop, benefiting from good weather, strong prices, and near-record yields, is estimated at 7 million bales. The production recovery halted a precipitous decline in cotton stocks and a sharp rise in domestic prices. After rising 16 percent during 1984, real prices for raw cotton averaged about 8 percent lower in real terms during the first half of 1985. However, supplies of short- and medium-staple cottons were tight during 1984/85, reflecting the trend towards increased plantings of long staple-cottons in response to price incentives and the availability of improved varieties. Policy adjustments, including excise tax reductions on synthetics and long-staple cotton to encourage their substitution for lower-priced short-staple cotton, were not successful in correcting the imbalance. In July, a 78,000-bale import quota for short- and medium-staple cotton was announced, along with an additional export quota for 78,000 bales of long-staple cotton. Imports of about 47,000 bales have reportedly been arranged for 1985/86 delivery from Pakistan and additional purchases are expected to be made during August-November from either Sudan or Pakistan. Cotton exports are estimated at 195,000 bales during 1984/85 (August/July).

Another Good Cotton Crop Forecast for 1985/86

With an average 1985 monsoon, cotton production is forecast to remain near 7 million bales in 1985/86. Price incentives, particularly for short- and medium-staple varieties, are likely to stimulate increased plantings, and a further increase in use of improved varieties is expected. However, it is not likely that the current varietal imbalance will be corrected in the short term, and imports of about 100,000 bales of short- and medium-staple cotton are forecast in 1985/86. Exports are projected at 155,000 bales, but with domestic prices highly competitive in world markets, and below current minimum export prices, a reduction in minimum export prices could lead to larger exports.

A new textile policy was announced in June 1985, outlining measures to restructure the sector to meet rising domestic demand and maximize exports. When implemented, the reforms will fundamentally change regulation of the industry by grouping it into three integrated sectors: spinning, weaving, and processing. There will be much greater flexibility to create, expand, and alter capacity, and to adjust fiber and product mix. Additional funds will be made available for plant modernization, and imports of textile machinery not produced in India will be liberalized. The current varietal imbalance will be addressed by measures to increase both use of long-staple cotton and production of short- and medium-staple varieties. The new policy is not expected to have a measurable impact on cotton use or trade in the near term.

Sugar Production Drops and Imports Are Renewed

Following 2 years of record production and large-scale exports, Indian sugar production hit its now-familiar down-cycle in 1983/84 and 1984/85. Centrifugal sugar output fell sharply from 9.5 million tons in 1982/83 to 7 million in 1983/84 and about 6.9 million in 1984/85. Weak domestic prices and the inability of many mills to pay producers reduced sugarcane plantings in 1983/84 and 1984/85, with poor weather also damaging the 1984/85 crop. Higher prices for gur, a traditional noncentrifugal sugar, also led to diversion of cane away from mills in 1984/85.

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Consecutive poor harvests depleted huge sugar stocks, and large-scale imports were initiated in late 1984 to meet consumption requirements. Imports during 1984/85 (October/September) are estimated at 900,000 tons, the largest on record. Sugar exports totaled 441,000 tons in 1982/83 and 765,000 in 1983/84, with major markets in Indonesia, Sri Lanka, and the Middle East.

Despite record government releases of subsidized and free-sale sugar in an attempt to stabilize consumer prices, real sugar prices increased sharply in mid-1985. However, the increase may have been too late to affect plantings for the 1985/86 sugarcane crop during January-March, and abnormally dry winter weather may also have constrained plantings. Sugarcane production is projected to rise 6 percent in 1985/86, with centrifugal sugar production rising 15 percent to about 8 million tons as stronger sugar prices result in more cane being diverted to mills. Sugar imports, however, are expected to increase to about 1.2 million tons because of extremely low stocks.

U.S. Farm Exports To India To Drop

U.S. farm exports to India dropped about 60 percent to $148 million in U.S. fiscal year 1984/85, as commercial imports of U.S. wheat ended and imports of soybean oil fell sharply. Sales of wheat and products to India fell from 4.1 million tons in 1982/83 to 1.1 million in 1983/84, and will consist only of about 170,000 tons shipped through the PL-480, Title II, program in 1984/85. Soybean oil sales are estimated at 75,000 tons, compared with 169,400 in 1983/84, because of smaller Indian requirements and continued strong competition.

Exports during 1985/86 are projected to rise only marginally to $170 million. Any stronger gain is primarily dependent on increased sales of soybean oil, either because of a poor Indian oilseed crop or enhanced competitiveness with Brazilian soybean oil and Malaysian palm oil. Pakistan and Sudan are expected to meet any Indian cotton import needs in 1985/86. However, U.S. exports of pulses are likely to continue to rise and reach 40,000-50,000 tons because of inadequate Indian supplies and ready consumer acceptance of U.S. products.

Stronger Growth Likely in 1985/86

India's real GDP is forecast to grow 5-6 percent in 1985/86, based on stronger performances by both farm and nonfarm sectors. Current crop forecasts indicate a 3-4 percent rise in farm output, assuming 1985 monsoon rainfall is near-normal. Growth in industrial output is forecast to rise to about 8 percent, aided by several consecutive years of relatively strong demand, continued improvements in infrastructural sectors, and further liberalization of import policies for essential raw materials. Strengthening demand, coupled with the outlook for an even larger budgetary deficit in 1985/86, could fuel inflationary pressures in the economy. Although huge food grain stocks are an effective buffer against inflation, any setback in oilseed, sugar, or cotton production could require significantly larger imports than are currently expected in order to stabilize prices.

India's medium-term balance of payments outlook is very tight, and any substantial improvement will likely require better export performance. Little progress is expected in reducing the trade deficit in 1985/86. Although export earnings are forecast to rise, the gains will be largely offset by a limited ability to further reduce petroleum imports. Both the current and the capital accounts will continue to be pressured by slowed growth in worker remittances, and higher interest and capital payments on foreign debt, notably IMF obligations.

India's sixth 5-year plan ended in 1984/85 with the economy achieving average annual growth of 5.2 percent during the plan--significantly above the long-term growth rate of 3.6 percent. The improved performance was sparked by a strong 6.4-percent average growth in farm output--evidence of the sector's productive potential. Growth in nonfarm sectors was, however, generally below target and major policy initiatives were announced in 1985 to help improve their performance. Achievement of more balanced growth during the next plan will be important, both to sustain incentives for agriculture, and to boost effective domestic demand for farm output.

Few of the newly announced policy initiatives directly affect agriculture. Those that do include plans for a national crop

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insurance program for food grains and oilseeds, and for a national body to boost farm exports. The crop insurance program, when implemented, may be an effective complement to the program to enhance productivity in dryland agriculture that will be a priority in the new 5-year plan. Other priorities in the plan will be to boost rice production in eastern India, to increase self-sufficiency in edible oils, and to further improve institutional support for agriculture. In the context of large budget deficits, and a serious problem generating investment resources for the new plan, steps may also be taken to reduce large outlays on fertilizer and food grain subsidies. [*Maurice R. Landes, (202) 786-1614*]

NEPAL

Farm Output Declines in 1984/85

Growth in Nepal's real GDP slowed to about 1 percent in 1984/85 (July/June), as poor weather reduced output in the economy's dominant farm sector. Agriculture accounts for more than 60 percent of GDP, about 90 percent of employment, and most export earnings. In 1984/85, total farm production fell about 3 percent as abnormally dry weather, particularly during the winter wheat season, led to a 4-percent decline in the food grain harvest. Total production of cash crops, including jute, oilseeds, potatoes, and sugarcane rose by about 2 percent. Growth in Nepal's small industrial sector, which accounts for about 4 percent of GDP and consists primarily of jute, sugar, and grain processing, was about 5 percent--aided by improved supplies of electricity and construction materials.

Export earnings dropped about 9 percent to $102 million in 1984/85 because of reduced supplies of most farm commodities for export. However, the trade deficit was held near the previous year's $316 million by continued tight controls and high taxes on nonessential imports. These measures reduced imports by about 2 percent to $420 million. Nearly 85 percent of Nepal's foreign trade is conducted in soft currencies with neighboring India and Tibet. Receipts from worker remittances, Gurkha pensions, and tourism are Nepal's primary sources of foreign exchange. With little potential for boosting earnings of hard currencies, foreign grants and concessional loans are becoming increasingly important sources of development capital.

Food Grain Production Drops

Total food grain production fell to 3.23 million tons in 1984/85, more than 4 percent below the 1983/84 record. The rice harvest, which normally accounts for about 70 percent of food grain production and most export earnings, dropped about 2 percent because of a prolonged dry spell in the Terai (plains) region where most rice is produced. Production of corn, the second major crop and the primary food staple in the hill regions, also fell about 2 percent because of unusually dry weather. The 1985 harvest of wheat, which is grown during the winter in the Kathmandu Valley and the foothills of the Terai, was the hardest hit by dry weather with production falling nearly 15 percent.

Inadequate Production Growth Reducing Food Grain Availibility

Because of inadequate growth in food grain production, Nepal's traditional exports of rice have virtually stopped. Due to high transport costs and Nepal's limited capacity to finance imports, sh[illegible]falls in domestic production are reflected in reduced consumption. Distribution of food to the hill regions is particularly costly because of rough terrain, lack of infrastructure, and the low purchasing power of hill inhabitants. Per capita food availability fluctuates with the

Table 11. Production of principal crops in Nepal 1/

	1982/83	1983/84	1984/85 est.	1985/86 proj.
	1,000 tons			
Rice	1,220	1,836	1,798	1,798
Corn	718	761	750	760
Wheat	660	634	540	630
Millet	121	113	114	116
Barley	25	25	25	25
Cereals	2,744	3,369	3,227	3,329
Jute	39	25	25	25
Oilseeds	69	74	80	80
Potatoes	375	376	385	390
Sugarcane	616	594	610	620

1/ Production reported by Nepalese crop years (July/June).

SOURCES: Government of Nepal, USDA estimates.

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weather, but has generally shown a downward trend--and a widening nutritional gap. In 1984/85, per capita availability of food grain fell to about 186 kgs, approximately 15 percent below that needed to achieve the minimum level of daily caloric intake recommeded by the Food and Agriculture Organization of the United Nations.

Most government agricultural development efforts focus on expanding rice production. Growers are being encouraged to increase their very low levels of fertilizer use through subsidies and improved local supplies. Efforts to boost production of corn, which is grown under rainfed conditions, include increasing supplies of subsidized seed, fertilizer, and credit.

Farm Exports to Nepal Remain Small

U.S. farm exports to Nepal consist primarily of wheat and nonfat dry milk provided under PL 480, Title II. Exports during U.S. fiscal year 1984/85 are estimated at about $2.5 million, compared with $2.6 million in 1983/84. High costs and poor infrastructure for distributing food aid are expected to result in little growth in Title II shipments in 1985/86.

Recovery Depends on Good Weather in 1985/86

Assuming average weather, farm production is expected to rise 3-4 percent in 1985/86. Food grain production is projected to advance more than 3 percent to about 3.33 million tons, allowing a marginal improvement in per capita availability. However, another year of poor weather would likely lead to very tight food supplies and more serious nutritional problems, particularly among the hill population. The trade deficit may continue to widen because of declining farm exports and continued imports of essential raw materials and capital goods. Although increased receipts from tourism and remittances may help offset a wider trade deficit, resources for development programs and to improve institutional support for the farm sector may become increasingly scarce. [*Amjad H. Gill, (202) 786-1614*]

PAKISTAN

Economy Rebounds in 1984/85

Pakistan's economy rebounded from a poor year in 1983/84 (July/June) and grew about 8.5 percent in 1984/85, but the recovery was not as strong as had been expected. Farm sector output expanded nearly 10 percent because of a sharp rebound in cotton production, but a second consecutive poor wheat harvest and another below-target rice crop prevented a stronger recovery. Growth in the manufacturing sector increased from 8.1 percent in 1983/84 to 8.6 percent, but remained below the long-term trend. Financial problems in Pakistan's key textile sector, as well as weak export demand, led to declines in cotton yarn and cloth production that partially offset solid gains in some other manufactures, including fertilizer and cement.

Inflation, as measured by consumer prices, slowed to about 7.5 percent in 1984/85, despite higher prices for food items, including wheat, pulses, edible oils, and meats. The lagged effects of slower monetary growth in the previous year and a further decline in foreign worker remittances helped ease inflationary pressures.

Budgetary and Balance of Payments Pressures Emerge

Despite the relatively strong growth performance, Pakistan's economy was troubled by growing budgetary deficits and further deterioration of the balance of payments in 1984/85. Budgetary pressures were created, in part, by shortfalls in tax and duty revenues, and by sharp depreciation of the rupee against the U.S. dollar. Depreciation led to increased rupee expenditures on debt service and on subsidies for imported items, including edible oils, wheat, fertilizers, and petroleum. Deficit financing expanded rapidly, contributing to increased inflationary pressure by the end of 1984/85. These budgetary developments further aggravated a persistent problem in sustaining adequate levels of domestic savings and development investment, and led to further expansion in foreign borrowing and debt service obligations.

Following a severe setback in 1983/84, largely because of the poor cotton crop, Pakistan's balance of payments deteriorated

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Table 12. Economic indicators for Pakistan

	FY78–FY83 average	FY84	FY85 est.	FY86 proj.
Gross domestic product (Rs. billion)				
Current prices	238.2	373.7	427.8	494.0
1959/60 prices	52.9	63.8	69.2	73.0
(% change)	(6.6)	(3.5)	(8.5)	(5.5)
Index of agricultural production				
(1959/60=100)	236.1	252.7	277.7	288.8
(% change)	(4.5)	(-6.3)	(9.9)	(4.0)
Consumer price index (1975/76=100)				
All items	151.7	199.1	214.0	233.3
(% change)	(9.4)	(8.4)	(7.5)	(9.0)
Food items	151.1	198.0	215.8	235.2
(% change)	(9.5)	(8.6)	(9.0)	(9.0)
Foreign trade ($ million)				
Exports	2,172	2,668	2,633	2,950
(% change)	(14.7)	(1.3)	(-1.3)	(12.0)
Imports	4,729	6,002	6,242	6,615
(% change)	(15.2)	(6.9)	(4.0)	(6.0)
Trade balance	-2,557	-3,334	-3,609	-3,665
For. reserves	934	1,731	850	850
Exch. rate (Rs./$)	10.48	13.50	15.16	16.50
Population (millions)				
	82.49	92.41	95.18	98.03
(% change)	(2.99)	(2.99)	(2.99)	(2.99)

NOTE: Data are for Pakistan fiscal years. FY86 is the year ending June 30, 1986.

SOURCES: Government of Pakistan, World Bank, International Monetary Fund, ERS estimates.

Table 13. Production of principal crops in Pakistan 1/

	1982/83	1983/84	1984/85 est.	1985/86 proj.
	1,000 tons			
Wheat	12,414	10,936	11,596	13,200
Rice	3,445	3,336	3,453	3,497
Coarse grains	1,604	1,646	1,690	1,725
Cereals	17,463	15,918	16,739	18,422
Cottonseed	1,648	1,021	2,014	1,695
Rape & mustard seed	246	217	210	230
Chickpea	286	499	522	550
Cotton 2/	3,781	2,188	4,628	3,900
Sugarcane	32,533	34,287	32,958	35,000

1/ Production reported by Pakistani crop years (July/June). 2/ Cotton production in 1,000 480-lb bales.

SOURCES: Government of Pakistan, USDA estimates.

further in 1984/85. Export earnings fell about 1 percent, as rice and cloth sales fell, while a sharp decline in prices offset a rebound in raw cotton volume. Imports rose about 4 percent because of strong domestic demand, as well as higher prices for edible oils, tea, and fertilizer. A larger trade deficit, coupled with a 10-percent drop in worker remittances to about $2.45 billion, boosted the current account deficit nearly 60 percent to $1.6 billion. The deficit was financed by a sharp drawdown in foreign reserves and about $1.5 billion in foreign borrowing. During the year, the Government announced measures to attract more foreign remittances, spur private domestic and foreign investment in the economy, and boost exports. Export promotion efforts include an expanded system of export compensatory rebates, primarily on textile products, and more liberal imports of raw materials for export-based industries.

Poor Wheat Crop Boosts Import Needs

Pakistan's 1985 wheat harvest is estimated at 11.6 million tons, up 6 percent from the drought-damaged 1984 crop, but 13 percent below target. The crop was planted under ideal conditions, benefiting from a 9.4-percent increase in the support price and ample input supplies, but abnormally hot, dry winter weather damaged the crop for the second consecutive year. Losses were most severe in rainfed areas which account for 12 to 14 percent of total area. However, significant losses also occurred in irrigated areas because of inadequate supplies of irrigation water.

The setback in wheat production led Pakistan to import wheat commercially for the first time in 4 years in 1984/85, and import needs are expected to increase in 1985/86. Imports during 1984/85 (July/June) are estimated at 1 million tons, including 400,000 from the World Food Program (WFP) for Afghan refugee relief, and 600,000 of commercial purchases. All commercial purchases were made through long-standing barter arrangements with East European and Nordic countries under which Pakistani goods, primarily nitrogenous fertilizers, were exchanged for wheat of Australian, Canadian, and Argentine origin. An initial round of barter deals was announced in late 1984 to compensate for that year's production shortfall, with additional deals made in April 1985 in anticipation of a poor 1985 crop. The

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Table 14. Supply and use of wheat in Pakistan (July/June)

Marketing year	Production	Imports	Exports	Consumption	Ending stocks
	Million tons				
1980/81	10.86	.32	.00	11.20	.98
1981/82	11.47	.35	.00	11.22	1.58
1982/83	11.30	.57	.08	11.52	1.85
1983/84	12.41	.39	.21	12.00	2.46
1984/85 est.	10.94	1.04	.05	12.36	2.02
1985/86 for.	11.60	1.95	.00	12.73	2.84

SOURCES: Government of Pakistan, USDA estimates.

imports enabled the Government to increase distribution of subsidized wheat through ration shops to stabilize prices, and to maintain wheat stocks at a comfortable 2 million tons.

Wheat imports during 1985/86 are forecast at 1.7 million tons, including 400,000 from the WFP and 1.3 million of other purchases. About 400,000 tons of Australian wheat have already been arranged for 1985/86 delivery through barters. The United States has offered grants and GSM-102 credit for about 700,000 tons of wheat, and will likely also provide about 300,000 through the WFP. Arrangements for further imports will probably wait until late 1985 when current crop conditions can be better assessed. Good 1986 wheat crop prospects could lead to smaller imports than currently projected.

Wheat Production Rebound Projected for 1986

Assuming more normal weather and replenishment of irrigation water supplies, wheat production is projected to rebound strongly in 1986. Achievement of the record 13.2-million-ton target is considered feasible. With highly competitive production costs, longer-term government policy is to develop a consistent exportable surplus of wheat, and an intensive effort to boost both planted area and yields is planned for the 1986 crop. The recent strengthening of both procurement and open market prices should help stimulate production. Achievement of the production target in 1986 would likely eliminate the need for additional commercial imports in 1986/87.

Rice Exports Slump

Rice production increased 3.5 percent to a record of nearly 3.5 million tons in 1984/85, primarily from increased plantings. Production was, however, well below the 3.7-million-ton target because of below-normal rainfall and a shortage of irrigation water. The basmati rice crop in Punjab also suffered abnormally heavy pest damage.

Rice exports by Pakistan, a major world supplier, dropped an estimated 23 percent to about 900,000 tons in 1984/85 (July/June), 300,000 below target. Exports fell because of stronger competition from Thailand for coarse rice markets, and because of the poor quality and higher domestic prices of basmati rice. Major rice export markets were in African countries for coarse varieties, and in the Middle East for basmati.

Some Rice Production and Export Gains Projected for 1985/86

The outlook for the 1985/86 rice crop is uncertain. Despite ample July rains, 2 years of poor rainfall have affected irrigation water supplies, particularly in the Sind Province. The 1985/86 crop is projected at about 3.5 million tons, but could be significantly higher or lower depending on water availability. Government promotion measures will focus on increasing the availability and use of fertilizer, quality seeds, and credit, as well as efforts to improve the quality of the basmati crop. Exports are projected to rise to about 1 million tons, based on some strengthening of foreign demand and improvement in the supply and quality of basmati rice.

Cotton Production and Exports Rebound

After plunging 42 percent to 2.2 million bales (480 pounds each) in 1983/84 because of unseasonally wet weather and heavy pest infestation, cotton production more than doubled to a record 4.6 million bales in 1984/85. Stronger support prices for improved varieties, concerted efforts to improve cultural practices, good weather, and an intensive plant protection effort stimulated the huge outturn--22 percent above the previous record.

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About 75 percent of Pakistan's cotton production is normally used in its textile industry and, with sharply improved supplies and lower prices, mill use of cotton rose about 11 percent in 1984/85. However, the recovery in mill demand was much weaker than expected because of financial problems in the mill sector, as well as weak foreign demand and prices for cotton yarn, textiles, and garments.

Cotton imports ended, and exports rebounded sharply to about 1.17 million bales in 1984/85 (July/June), after dropping to 377,000 bales the year before. Markets for Pakistani cotton are diverse, but major buyers include Japan, South Korea, Taiwan, West Germany, Hong Kong, and Indonesia. However, because of weak world prices, cotton export earnings showed little change over 1983/84--a major factor in Pakistan's deteriorating balance of payments situation. Despite the rebound in export volume, the huge crop and poor performance of the textile sector led to a record 1.1 million bales of cotton stocks by the end of 1984/85.

Cotton Output Likely To Drop in 1985/86

The cotton production outlook for 1985/86 is uncertain because of the sharply above-trend outturn in 1984/85 and the critical need for good rainfall. Production is projected to fall to about 3.9 million bales. Poor supplies of irrigation water in Sind, and weak domestic and foreign prices are expected to lead to a decline in planted area and input use. Support price increases were smaller than in most recent years. While some strengthening of domestic mill demand is likely, Pakistani cotton prices are expected to remain highly competitive in foreign markets. Exports are projected to rise to about 1.3 million bales, but cotton stocks will likely remain high.

Record Production Reduces 1985 Edible Oil Imports

Oilseed production jumped 74 percent to a record 2.35 million tons in 1984/85, primarily because of record production of cottonseed--Pakistan's principal oilseed. The rapeseed harvest fell because of dry winter weather, and other oilseeds showed no significant change. Edible oil production increased 48 percent.

Table 15. Supply and use of cotton in Pakistan (August/July)

Marketing year	Production	Imports	Exports	Consumption 1/	Ending stocks
	1,000 480-lb bales				
1980/81	3,300	2	1,490	2,160	235
1981/82	3,494	5	1,097	2,396	241
1982/83	3,781	4	1,273	2,600	153
1983/84	2,188	279	377	2,150	93
1984/85 est.	4,628	4	1,170	2,440	1,115
1985/86 for.	3,900	4	1,300	2,575	1,144

1/ Includes losses.

SOURCES: Government of Pakistan, USDA estimates.

With the strong growth in domestic supply, edible oil imports in 1985 are forecast to fall 11 percent from the 1984 record. Reflecting trends in relative world prices of palm and soybean oil, the palm oil share of total imports is forecast to increase from 55 percent in 1984 to 65-70 percent in 1985. Palm oil imports are forecast at a record 420,000 tons, while soybean oil purchases slip to 200,000--the lowest since 1977. Total domestic edible oil use is forecast to rise about 5 percent, significantly below the trend of recent years. The slowdown may result from increases in administered prices of cottonseed oil and vegetable ghee (hydrogenated oil) in late 1984 that helped reverse the steady downtrend in real edible oil prices, as well as increasing foreign exchange constraints on imports of edible oils--one of Pakistan's largest import items.

Higher Edible Oil Imports Projected for 1985/86

Production of oils is projected to fall 14 percent in 1985/86 because of the expected decline in cotton production. Edible oil imports are projected to rebound to nearly 750,000 tons in 1986 to compensate for reduced domestic supplies and provide some growth in consumption. However, further upward adjustments in administered oil prices or a shortage of foreign exchange could lead to smaller imports. Given the outlook for another large increase in world palm oil supplies and relatively low palm oil prices, palm oil is expected to continue to account for the dominant share of 1986 imports.

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Table 16. Supply and use of edible oils in Pakistan (calendar years)

	1982	1983	1984	1985 est.	1986 proj.
	1,000 tons				
Opening stocks	72	60	65	80	66
Production					
Cottonseed	154	171	113	205	158
Rapeseed	79	81	72	70	76
Soybean	0	0	0	0	1
Sunflower	5	2	3	4	6
Total	238	254	188	279	241
Imports					
Palm	282	362	383	420	475
Soybean	318	219	317	200	270
Other	6	7	1	3	1
Total	606	588	701	623	746
Exports	0	0	0	0	0
Domestic disappearance	856	837	874	916	991
Per capita (kgs)	9.6	9.1	9.3	9.4	9.9
Ending stocks	60	65	80	66	61

1/ Imports based on partner-country export data.

SOURCES: Government of Pakistan, partner country trade data, USDA estimates.

U.S. Farm Exports to Pakistan Drop in 1984/85

After climbing to a record $285 million in U.S. fiscal year 1983/84, U.S. farm exports to Pakistan dropped 19 percent to about $231 million in 1984/85. The termination of cotton imports, along with a 7-percent drop in soybean oil sales and, a 40-percent drop in inedible tallow shipments accounted for the decline.

The value of U.S. farm exports to Pakistan in 1985/86 will depend heavily on how successfully the United States competes for Pakistan's wheat imports. Wheat exports to Pakistan are expected to total about 1.1 million tons, assuming Pakistan takes advantage of the financing package that has been offered. If these sales are achieved, U.S. farm exports to Pakistan are projected to rise to a record $340 million. However, little, if any, growth is expected in sales of soybean oil and other commodities because of strong competition from palm oil and Pakistan's tight balance of payments position.

Slower Economic Growth Expected in 1985/86

Pakistan's real GDP growth is projected to slow to 5–6 percent in 1985/86, well below 1984/85 and also below the recent trend. Farm sector growth is likely to slow to 4–5 percent, as projected gains in food grain output are partially offset by a smaller cotton crop. Actual farm sector performance will depend more than usual on good rainfall because of the critical need for irrigation water. Industrial sector growth is expected to pick up to about 9 percent, assuming a stronger performance by the key textile sector, and further gains in steel, fertilizer, and cement.

Budgetary and balance of payment deficits, which worsened during 1983/84 and 1984/85, will probably continue to affect economic performance and policy during the next several years. Levels of national savings and investment achieved during recent years are probably not sufficient to sustain 6-percent real GDP growth over the longer term without an unacceptable level of deficit financing and foreign debt. More effective domestic resource mobilization, as well as reduced budgetary outlays for items such as subsidies on wheat, edible oils, fertilizer, and petroleum, will probably be necessary. Because of great uncertainty about future growth in foreign remittances, a major source of foreign exchange, increasing emphasis will be placed on achieving stronger growth in export earnings, as well as on curbing growth in imports through import substitution. The farm sector will be a key focus of these efforts. To boost exports of food grains and cotton, and to promote diversification to higher-valued crops, more emphasis will likely be placed on improving low productivity levels by enhancing institutional support to the farm sector. Additional efforts can also be expected to expand oilseed production and, perhaps, to slow growth in domestic edible oil demand in order to reduce dependence on imports. [*Amjad H. Gill, (202) 786-1614*]

SRI LANKA

Economy Shows Steady Growth

Sri Lanka's economy continued to show steady expansion in 1984, although real growth of about 5.1 percent remained below that of the late 1970's. Gains in nonfarm sectors

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more than compensated for a slowdown in farm sector growth to about 2 percent because of weather-induced declines in paddy and coconut production. Manufacturing was the fastest growing sector, led by a marked increase in tea processing in response to buoyant foreign demand. The service sector, which constitutes about 50 percent of GDP, grew about 8 percent. Output of the public sector petroleum corporation surged by 22 percent.

Consumer prices rose nearly 17 percent in 1984, the seventh consecutive year of double-digit inflation. The budgetary deficit was reduced from 23 percent of GDP in 1980 to about 11 percent by the end of 1984, but it continued to be the primary source of inflationary pressures. Also spurring inflation were setbacks in rice and coconut production and shortages of some goods resulting from civil disturbances.

Table 17. Economic indicators for Sri Lanka

	FY77-FY82 average	FY83	FY84 est.	FY85 proj.
	Gross domestic product (Rs. billion)			
Current prices	63.8	121.9	153.0	181.0
1980 prices	62.2	78.0	82.0	86.1
(% change)	(6.0)	(4.8)	(5.1)	(5.0)
	Index of agricultural production			
(1968=100)	134.8	155.0	158.1	162.8
(% change)	(3.6)	(5.4)	(2.0)	(3.0)
	Consumer price index (1978=100)			
All items	131.2	208.2	242.8	271.9
(% change)	(16.4)	(14.0)	(16.6)	(12.0)
Food items	139.9	213.2	243.0	267.3
(% change)	(16.9)	('2.4)	(15.0)	(10.0)
	Foreign trade ($ million)			
Exports	953	1,062	1,472	1,375
(% change)	(6.8)	(4.7)	(38.6)	(-6.6)
Imports	1,514	1,929	1,873	1,950
% change)	(23.4)	(-3.1)	(-2.9)	(4.1)
Trade balance	-561	-867	-401	-575
For. reserves	357	297	510	400
Exch. rate (Rs./$)	16.16	23.62	25.43	27.00
	Population (millions)			
	14.46	15.37	15.65	15.92
(% change)	(1.76)	(1.79)	(1.82)	(1.73)

NOTE: Data are for Sri Lankan fiscal years. FY84 is the year ending December 31, 1984.

SOURCES: Government of Sri Lanka, World Bank, International Monetary Fund, ERS estimates.

Balance of Payments Improves in 1984

Sri Lanka's balance of payments showed strong improvement in 1984. A setback in Indian tea production led to a dramatic increase in earnings from tea exports, and garment and petroleum product exports rose sharply. Total export earnings jumped nearly 40 percent, while tighter government credit and spending policies prevented growth in imports. The trade deficit was reduced by more than 50 percent and foreign reserves rose. However, receipts from tourism, remittances, and foreign investment fell, and increasing dependence on foreign loans and grants boosted debt service obligations to a worrisome 17.5 percent of current receipts.

Poor Weather Slows Rice Production

Because of adverse weather conditions and floods during the harvest of the 1984 Maha (main) rice crop, Sri Lanka's total food grain production declined nearly 3 percent to 1.73 million tons in 1984. The Maha harvest dropped 25 percent to 920,000 tons, but the Yala (secondary) crop benefited from excellent weather and larger planted area, and output rose more than 50 percent to 720,000 tons.

Poor weather and disruptions caused by civil unrest have further reduced rice production to about 1.6 million tons in 1985. The Maha crop rebounded, but was below target, and severe drought, ethnic tensions, and water shortages are expected to reduce Yala production by 35 percent. Consecutive poor harvests have stalled Sri Lanka's progress

Table 18. Production of principal crops in Sri Lanka 1/

	1982	1983	1984 est.	1985 proj.
	1,000 tons			
Rice	1,466	1,688	1,640	1,608
Cassava	450	450	450	450
Corn	35	35	35	35
Copra	174	138	62	150
Tea	188	179	208	210
Rubber	125	140	143	145

1/ Production reported by Sri Lankan crop years (January/December).

SOURCES: Government of Sri Lanka, USDA estimates.

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towards rice self-sufficiency. Between 1977 and 1983, rice output grew at the impressive rate of 5.8 percent per year due to more producer-oriented pricing policies and increases in irrigated area under the Mahaweli Development Project.

Other than rice, Sri Lanka's major farm products are tea, rubber, and coconuts. Production of tea, the major export commodity, rebounded 16 percent in 1984 from the drought-reduced outturn of 1983. The increase was mainly due to more favorable weather, and slower growth is forecast for 1985. Output of rubber, the second major export, increased about 2 percent, and similar gains are expected in 1985 because of adequate rainfall and favorable world rubber prices. Coconut and copra production plunged in 1984 because of the lagged effects of poor weather, but are expected to recover in 1985.

Rice Imports To Rise

Production gains and slowed growth in demand due to higher consumer prices led to a decline in rice imports during 1977-1984. During 1984, rice imports fell to an estimated 20,000 tons, the lowest on record, as withdrawals from record stocks offset the drop in 1984 production. The bulk of Sri Lanka's rice imports continue to be arranged through a long-standing barter arrangement with China, under which rubber is exported to China in exchange for Burmese rice.

However, consecutive poor rice harvests in 1984 and 1985 are expected to boost rice imports to 190,000 tons in 1985 and 150,000 in 1986. The bulk of these imports have reportedly been arranged from Burma and China. In addition to compensating for production shortfalls, the Government will be careful to use imports to maintain adequate stocks in the event of supply disruptions stemming from civil unrest.

Wheat Imports Remain Sluggish

Sri Lanka's climate does not permit wheat production. Annual wheat import demand is determined primarily by the availability and price of rice, the level of administered wheat prices, and income levels. Wheat, in the form of bread, is a preferred food among affluent consumers. The Government has stemmed growth in wheat demand by raising administered prices and encouraging consumption of rice and other domestically grown foods. These efforts have been largely effective in reducing wheat import needs since 1980.

Wheat imports were stable at about 570,000 tons in both 1983 and 1984. They are forecast to rise to about 600,000 tons in 1985 to augment rice supplies and boost stocks. While no significant growth is projected in wheat imports in the next several years, the Government is committed to providing its Prima Flour Mill about 500,000 tons of wheat annually. An increasing share of wheat imports are received on concessional terms, and stiff competition for both commercial and concessional sales continues to prevent growth in U.S. exports.

Farm Policy Stresses Food Grain Self-Sufficiency

Food self-sufficiency, especially in rice, remains the main objective of the Government's agricultural policy. Rice is the major farm commodity in Sri Lanka, covering 35 percent of agricultural land and accounting for about 45 percent of average daily caloric intake. Gains in rice production have been stimulated by expansion of irrigated area, improved supplies of fertilizer and other inputs, development of high yielding varieties, and stronger price incentives.

Table 19. Wheat imports by Sri Lanka by source and financing

Source	1982	1983	1984
		Tons	
Commercial:			
Argentina	0	0	30,600
Australia	119,889	53,190	13,337
Canada	0	108,593	87,500
France	0	147,958	0
United States	205,224	0	88,720
Total	325,113	309,741	220,157
Concessional:			
Australia	16,704	10,000	23,000
Canada	0	40,763	115,909
EEC	32,000	37,000	46,663
France	0	0	0
United States	120,920	174,176	165,561
Total	169,624	261,939	351,133

SOURCES: Government of Sri Lanka, USDA estimates.

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Since 1977, price policies have become more producer-oriented and reduced consumer subsidies have slowed growth in demand. The floor price for paddy has increased by 35 percent since 1980, reaching Rs. 3,230 ($131) per ton in 1984. General consumer subsidies on rice and wheat flour were withdrawn in 1980 and replaced by a smaller, targeted food stamp program. With market rice prices generally remaining above the government-administered floor prices, most rice is now privately traded. Administered retail prices of wheat flour are maintained above rice prices to discourage consumer substitution of wheat for rice, and to avoid disincentives for rice producers.

U.S. Farm Exports Remain Flat

U.S. agricultural exports to Sri Lanka rose slightly from $46 million in U.S. fiscal year 1983/84 to about $49 million in 1984/85. Exports consist primarily of wheat provided under P.L. 480, Title I; and wheat exports remained unchanged at about 250,000 tons in 1984/85. Limited growth in concessional wheat sales, and strong competition for commercial sales continued to hold the U.S. market share well below the 60-70 percent of 1981 and 1982. Total U.S. farm exports to Sri Lanka are projected to remain stable at about $49 million in 1985/86, but continued limited market growth and stiff competition for wheat sales could lead to a decline.

Future Growth Prospects Uncertain

Real GDP growth in 1985 is forecast at 5 percent, with slowed growth in farm output offset by stronger industrial sector performance in response to increased government investment and stimulative policies. However, growth could fall substantially below expectations because of continued civil unrest and the recent sharp drop in demand and prices for Sri Lankan tea. Ethnic strife between Sinhalese and Tamils continues to disrupt performance and private investment in some sectors, and to increase budgetary pressures and slow public investment as resources are diverted to defense activities. Inflation slowed sharply by the end of 1984, and is expected to be about 12 percent in 1985, assuming adequate supplies of imported rice and continued budgetary discipline.

The balance of payments is forecast to deteriorate in 1985 as weaker tea prices lead to a decline in export earnings, and there is little or no growth in remittances and tourism receipts. Although continued budgetary constraint will likely limit growth in imports, foreign reserves are forecast to drop, and the debt service ratio is projected to rise to an increasingly burdensome 21 percent.

Civil unrest, inadequate growth in foreign exchange earnings from exports, tourism, and remittances, and rising debt obligations threaten Sri Lanka's prospects of maintaining its relatively strong growth performance of recent years. To generate the investment resources necessary to maintain growth, the Government will continue to try to curb outlays for food grain imports and subsidies, and also will place more priority on development of the export potential of the tree crop and manufacturing sectors. Resolution of the Tamil/Sinhalese issue will be necessary to free up funds for development investment, and to restore the confidence of domestic and foreign investors. Until expenditures aimed at coping with civil unrest can be reduced, and export earnings improve, continued strong growth will depend heavily on the availibility of foreign concessional capital. [*Amjad H. Gill, (202) 786-1614*]

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FASTER GROWTH FOR INDIA?

Donald A. Sillers 1/

Abstract: India has begun to enact industrial and trade policy reforms that could substantially raise its income growth rate. Various factors cloud the prospects for success, notably the likelihood of a growing debt burden. Faster growth could have important implications for the agricultural sector.

Keywords: India, industrial policy, trade policy, agricultural imports, economic growth.

Since 1980, India has adopted a series of economic reforms aimed at accelerating growth through increased efficiency in industrial investment and production, increased export growth, and faster absorption of technology. The pace of reform has been stepped up markedly under the leadership of Prime Minister Rajiv Gandhi, who took office in November 1984 following the assassination of his mother, Indira Gandhi. If successful, the reforms could stimulate a significant increase in India's economic growth. The following briefly describes India's economic development record, examines the prospects for faster growth, and suggests some of the likely implications for world agricultural markets.

Agricultural and Nonagricultural Contributions to Growth

India's economy grew an average 3.65 percent per year between 1951/52 and 1979/80, with marked year-to-year fluctuations reflecting weather-induced variations in agricultural output. With population growth averaging 2.2 percent over the same period, growth in real per capita income was held to a meager 1.5 percent per year. India has set a goal of 5 percent annual growth in real income for its Seventh 5-year National Plan (1985/86-1990/91), a substantial increase over past trends. Growth of 5.2 percent per year was achieved during the Sixth Plan (1980/81-1984/85), but much of this reflected unusually rapid agricultural growth which can not be sustained. The evidence suggests that sustaining stronger growth will require substantial changes in industrial and trade policy to allow the industrial sector to live up to its potential as a source of increased output and employment.

Agricultural production grew an average 3.7 percent per year between 1965/66 and 1983/84, providing a gradually increasing supply of food per person at gradually declining real prices. With little opportunity for increasing cultivated area, output growth was accomplished through increased yields and increased double cropping. To a large extent, both factors reflected the impact of government policy, which has strongly supported the spread of yield-enhancing production techniques and inputs, especially irrigation, chemical fertilizers, and high-yielding seed varieties. Investment in irrigation development has been particularly vigorous, allowing expanded double cropping as well as increased yields. Farmers have been encouraged to adopt modern techniques through remunerative support and procurement prices for major crops and subsidized farm credit.

The overall agricultural growth rate disguises important differences in the performance of different crops. Between 1965/66 and 1983/84, production of cereals--especially wheat--grew most strongly at 4.6 percent per year, gradually reducing India's dependence on food grain imports. In recent years, India appears to have achieved self-sufficiency in food grain production, eliminating what had been a major drain on foreign exchange earnings. In contrast, production of pulses--a vital source of protein in vegetarian diets--remained stagnant, while oilseed output grew 2.8 percent per year, only slightly ahead of population growth. Despite these and some other areas of concern, most observers consider India's agricultural performance since the mid-1960's quite impressive.

Increased stability in agricultural production has recently emerged as an outgrowth of the spread of irrigation, which

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has reduced dependence on the capricious monsoon. Thus, agricultural production declined only 4.2 percent in 1982/83, despite one of the most serious droughts in recent history. With agriculture generating almost 35 percent of national income and over 65 percent of total employment, changes in agricultural production and income strongly affect the nonagricultural economy through changes in demand. As a result, greater stability in agricultural production is resulting in greater stability for the whole economy.

It is usually taken for granted that industry--especially manufacturing-- will take the leading role in economic development, absorbing labor and capital released from agriculture and achieving rapid output growth through steadily increasing productivity. By this standard, India's industrial sector has performed very poorly. Industrial output grew an average 5.4 percent per year in 1961–70, then fell to 4.3 percent in 1970–81, roughly in line with overall income growth. This occurred despite heavy public and private investment, because of declining total factor productivity and investment efficiency.

This failure appears to have been largely a consequence of India's basic development strategy. Since the early 1950's, Indian planning has emphasized the creation of a heavy industrial base dominated by public enterprises, together with strict government control over the private sector. In addition, strong import barriers have encouraged the substitution of domestic production for imports. Although intended to promote industrial growth, these policies have ultimately held it back by imposing a mass of stifling restrictions on the operations of firms and industries, by shielding domestic industries from the pressure of international competition, by inhibiting the absorption of modern technology from abroad, and by absorbing a large share of national savings for investment in inefficient government-operated enterprises. A look at the industrial structure that has emerged in response to these policies suggests some of the reasons for India's relative industrial stagnation.

The Role of Public Enterprises

Government enterprises dominate heavy industry, including coal, steel, petroleum, electricity, minerals, and most heavy equipment manufacture. Public enterprises accounted for 22 percent of value added in manufacturing in 1980/81, while absorbing 49 percent of total investment in the sector. Government enterprises also dominate the leading service industries: construction, transportation, and foreign trade. Some public enterprises, notably those in petroleum and international air travel, have earned a reputation for efficient operations. Most, however, incur heavy financial losses that must be covered through higher taxes.

Poor investment scheduling, long delays in constructing new capacity, and generally poor management have created a series of vicious circles, in which output shortages in key public industries (especially electricity, coal, and transportation) have created input shortages for other industries in the public and private sectors. Partly as a result, capacity utilization in most public enterprises has been chronically low. These problems have been compounded by the use of administered prices for all key products--steel, coal, electricity, petroleum products, fertilizer, and many others. Political pressure has tended to keep these prices below market-clearing levels, creating shortages that must be dealt with through rationing. In addition, low administered prices on key products produced by private firms, like cement, have severely restrained investment and created chronic shortages.

The Licensing Regime

Private industry is regulated by a comprehensive system of industrial licensing, which is intended to channel investment into priority areas, limit the concentration of economic power, improve the regional dispersion of industry, and encourage small-scale industry. All firms, except for very small ones, must obtain licenses to enter an industry, to change their product mix, to expand capacity, or to change the location of a factory. Especially strong controls apply to investments by large firms (under the Monopoly and Restrictive Trade Practices Act or MRTP) and by firms with foreign participation (under the Foreign Exchange

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Regulation Act or FERA). Until recently, MRTP and FERA firms were restricted to 25 industries. They must also submit applications to make any substantial investment. These applications are subjected to intense and protracted examination and are usually refused. Finally, almost 900 industries are reserved for small-scale firms.

These barriers to entry and capacity expansion severely limit the efficiency-promoting effects of competition in many industries. For example, licenses to enter an industry or expand capacity are normally refused if existing capacity appears adequate to meet demand. This means that inefficient firms need not fear being driven out of business by new firms entering the market or by more efficient firms increasing their production.

Restricting large firms to a small number of industries and reserving many others for small-scale firms limits the scope for achieving economies of scale in production. The MRTP eliminates much of the potential for income and employment growth by larger firms. Similarly, FERA and other restrictions on foreign direct investment have severely limited the inflow of foreign production technology.

More generally, the licensing regime has placed control over many key investment and production decisions in the hands of officials with little direct knowledge of the economy. Not surprisingly, the result has been a general decline in investment efficiency. The system has also provided fertile ground for corruption because of licensing officials' power to impose costly delays on firms.

Industrial Protectionism

To increase national self-reliance and, in principal, to promote industrial growth, Indian industry has been strongly protected by tariff and nontariff trade barriers. These prohibit imports of most consumer goods and force firms to purchase domestically produced capital goods and manufactured inputs whenever possible. In other cases, private firms must attempt to obtain licenses to import capital goods and inputs.

Although protection has facilitated the establishment and initial expansion of many manufacturing industries, it has shielded them from pressure to keep prices low and to improve product quality. In addition, by driving up input prices and thereby raising production costs, protection has undermined the competitiveness of India's manufactured goods in world markets. The export-inhibiting effects of protection are reflected in the decline in India's share of world exports from 2.4 percent in 1948 to 0.41 percent in 1981.

Declining Investment Efficiency

The adverse impact of India's restrictive industrial and trade policies is suggested by the contrast between its strong savings and investment performance and its much more modest rate of income growth. Savings rose from 10.7 percent of gross national product in 1950/51 to 23.1 percent in 1978/79-1983/84. The present rate of savings is far higher than that typical of other countries with similar levels of per capita income. This strong savings performance has enabled India to invest 24.3 percent of GNP during 1978/79-1983/84, up from 10.4 percent in 1950/51.2/ The impact of this increased investment, however, has been largely offset by a pronounced decline in investment efficiency, especially in public manufacturing enterprises. As a result, much of the hard-won increase in national savings has been wasted. If India had been able to maintain the same level of investment efficiency it achieved during the First Plan (1951/52-1955/56), its investment rate in 1978/79-1982/83 would have allowed it to grow 4.3 percent per year rather than the 3-percent rate actually achieved.

First Steps Toward Reform

Tentative steps were taken in 1980-84 to reduce the burden of regulation on private industry. These measures provided for

2/ The difference between investment and national savings reflects the role of foreign capital inflows. Because of India's traditionally conservative policy towards foreign borrowing and its reluctance to admit direct foreign investment, such inflows have mainly consisted of foreign aid. Foreign investment has always played a small role in India's capital formation, and this role has declined steadily over time.

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automatic approval of some capacity growth in many industries, increased the number of industries open to MRTP and FERA firms, and dropped the MRTP restrictions on entry and expansion by large firms in a few industries. So far, however, the impact of these changes has been almost completely blunted by overlapping restrictions-- notably the reservation of many products for small-scale industry, special restrictions applied to many industries, and special limitations on firms that dominate their respective industries.

Greater progress was made in the area of trade policy. Import restrictions were relaxed for manufactured inputs and raw materials not produced in India or produced in insufficient supply. Imports of such items grew rapidly in 1980-84, indicating the burden of the former restrictions. To spur production of motor vehicles, tariffs on raw materials and key components were reduced sharply in 1982, and producers were allowed to import foreign technology and to form joint ventures with foreign producers. Similar changes were extended to the electronics industry in 1984, along with the reduction or elimination of excise taxes on electronic products to spur domestic demand.

Pace of Reform Picks Up

The pace of reform has quickened significantly under the new leadership of Rajiv Gandhi. To foster growth of a domestic computer industry, the Government promptly lifted many restrictions on domestic computer producers, eased access to foreign technology, removed restrictions on imports of many types of computers, and reduced tariffs on key components. Product licensing categories on automobiles and other vehicles, paper, and several types of production machinery were broadened, allowing producers to change their product mix to follow demand trends and to put their design and production facilities to fuller use.

Several sweeping changes were introduced under the 1985/86 budget, announced in March 1985. The budget eliminates licensing requirements for 25 industries, including machine tools, industrial machinery, electrical equipment, agricultural implements, and electronic components. In principle at least, these industries will be able to expand their capacity and production as quickly as they like and to change their product mix at will. The budget also raises, from $16 to $80 million, the asset level at which firms become subject to MRTP controls. This should free about half of India's 180 largest firms from MRTP jurisdiction. This action followed an earlier move in which investment in nine industries (including energy exploration, light commercial vehicles, and electronic components) was freed from MRTP constraints. Finally, the budget includes reductions in corporate and individual tax rates intended to reduce widespread tax evasion, improve work and investment incentives, and reduce administrative costs. Revenue lost because of these changes is expected to be made up through increased excise taxes on petroleum products and increased bus and railroad fares.

Further changes have been announced since the budget. A new import policy, announced in April, introduced broad import liberalization measures aimed at improving export competitiveness, as well as lowering the cost and raising the quality of manufactured products sold in the domestic market. Import license requirements were lifted for industrial machinery used by the automobile, electronics, textile, and several other industries. In addition, firms producing wholly for export will be permitted to import their inputs duty-free. To create a more stable environment for producers, these changes are to remain in effect for at least 3 years rather than 1 year as in previous import plans.

Finally, changes were announced in June for India's important textile industry, giving large firms complete freedom to expand or contract production and to change products, and allowing some unprofitable mills to shut down.

Further reforms are clearly on the way. For instance, reports are pending from two committees appointed to recommend changes in trade and industrial policies to foster export growth. Moreover, the long-awaited Seventh Plan almost certainly will contain additional policy changes.

Implications of Faster Growth

In less than a year, India has made substantial progress in removing some of the

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most flagrant policy constraints on efficiency and growth. Whether the current round of reforms will be sufficient to sustain income growth at 5 percent over the longer run is difficult to forecast. The industrial and trade policy system is extremely complex, so that the effectiveness of some reforms could be blunted by overlapping restrictions. In fact, many of the reforms announced so far have been hedged in by various exceptions. Whether the momentum of reform can be maintained is largely a political question. Potential sources of resistance include members of the licensing bureaucracy, as well as some powerful industrial firms that have a vested interest in maintaining a secure and sheltered economic environment. So far, however, a strong electoral mandate has given the Prime Minister considerable latitude, while private industry has responded favorably to most of the reform measures.

If the political will is there, considerable room remains for further reform. Product mix constraints could be removed from essentially all industries, the focus of antimonopoly policy shifted from questions of size and dominance (as under the MRTP) to questions of performance, liberalized capacity licensing extended to most industries, and the scope of the small-scale reservation narrowed. Import licensing for capital goods and inputs could be further liberalized, and tariffs further reduced. More fundamentally, import restrictions on final products could be selectively reduced to stimulate producers to lower prices and improve product quality.

Public enterprises have thus far avoided fundamental structural reform. However, the Prime Minister has placed a number of trusted technocrats in charge of key public enterprise groups, with orders to cut costs and remove production bottlenecks. How much progress can be made on this basis remains to be seen. Political considerations will probably preclude fundamental reform through the sale of public enterprises to the private sector.

Because the agricultural sector has been operating under a relatively supportive policy for some time, there is less room for policy changes to radically improve its performance. However, progress is likely to come from extending current programs to crops and regions that have so far received relatively little attention: increasing groundwater development in the eastern rice region, completing irrigation projects in progress elsewhere, and increasing research and extension for rice, coarse grains, and oilseeds. Observers estimate that such steps could help maintain agricultural growth at around 3.2 percent, leading to continued growth in food security and helping to alleviate rural poverty.

Implications for Trade and Debt Service

If India succeeds in carrying out the reforms needed to attain its 5-percent growth target, it will soon face some hard choices imposed by balance-of-payments considerations. Many of the reforms recently enacted or now under discussion, especially those giving producers greater access to imported capital goods, manufactured inputs, and technology, will lead to increased outflows of foreign exchange. Based on past behavior, raising income growth to 5 percent is likely to lead to import growth of around 7 percent. As the experience of other countries shows, import liberalization backed by appropriate domestic reforms should lead in time to an improved balance of payments through improved export competitiveness. How quickly this can be accomplished depends in part on the leadership's ability to convince producers that the new trade and investment environment will continue rather than be reversed in a few years.

In the meantime, India will have to borrow abroad to finance its trade deficit. To keep the resulting increase in debt service in bounds, India will have to roughly double its export growth rate between 1985 and 1990. Even with such an acceleration in export growth, the debt service ratio is likely to rise from 15.5 percent in 1984/85 to 22 percent in 1989/90 and to 24 percent by 1994/95. Without sufficient growth in exports, India must either face a much larger increase in debt service or resign itself to slower growth. Only time will tell whether the long-sheltered Indian industrial sector will be able to respond to these demands, or even whether it will be given a fair chance to succeed.

Implications for Agriculture

If policy reforms succeed in raising India's long-run industrial growth rate, the agricultural sector would be affected in

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several ways. Faster growth in per capita income would boost the growth of demand for most foods, including wheat, rice, and vegetable oils. Vegetable oil imports required to stabilize prices would probably rise in this case, although planned efforts to boost domestic oilseed production might offset much of the increased demand. Faster and more stable growth in food grain demand might prevent the periodic accumulation of surplus stocks of rice and, particularly wheat. While large food grain stocks rule out imports in the near term, stronger and more stable growth in nonfarm incomes could eventually boost import needs in years following poor harvests.

Historically, the heavy dependence of India's nonagricultural economy on the agricultural sector has meant that a bad harvest would lead to reduced food grain demand throughout the economy, so that import needs or export availability would fluctuate much less than production. If Indian industry shifts to a stronger and more self-sustaining growth path, or if it increases its export orientation, the nation's food grain trade is likely to become more sensitive to domestic production changes.

Finally, agriculture is likely to play an important role in generating increased foreign exchange. Efforts are likely to concentrate on expanding earnings from high-value and horticultural products (including tea, coffee, spices, cashews, seeds, and fruit preparations) as well as bulk commodities such as tobacco and basmati rice. Infrastructure investment aimed at boosting production, tightened quality control, export promotion in major markets, and export barrier reduction (including lower export taxes and improved management of minimum export prices) are all being used to some degree and can be intensified. Additional efforts are under way to increase the unit value of agricultural exports by performing more processing locally.

Even if stronger export growth is achieved, India's balance-of-payments situation is likely to remain tight for years to come; any increased foreign exchange earnings will be needed to finance growing imports of capital goods and inputs and to pay increased debt service. Consequently, liberalization in India's restrictive policy toward food imports should not be expected in the short term. In particular, imports of food items considered nonessential-- including virtually all processed and high-value products--are likely to remain banned.

COSTS AND BENEFITS OF PRICE SUPPORT AND FERTILIZER SUBSIDIES PROGRAMS IN BANGLADESH

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Abstract: Supportive output and input price policies are important in Bangladesh's drive towards food grain self-sufficiency. During the 1980's, there has been more emphasis on raising crop prices than in the past, while fertilizer subsidies have been reduced. Comparison of how price support and fertilizer subsidy programs affect Government costs, foreign exchange earnings, and producer welfare suggest that higher crop prices may be more supportive of stronger growth in food grain production than increased fertilizer subsidies.

Keywords: Bangladesh, price supports, input subsidies, food grains, jute, costs, benefits.

Bangladesh has adopted food grain self-sufficiency as a national goal. Motives include the critical dependence of low-income consumers on adequate supplies of food grains, the need to boost agricultural incomes, and a desire to reduce foreign exchange outlays for food grain imports, in view of the limited scope for significantly expanding exports. Bangladesh's past success in boosting food

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grain production, and its vast potential based on fertile soils and abundant supplies of labor and water, support the feasibility of this strategy. Although Bangladesh has made significant progress towards self-sufficiency since independence, wheat and rice imports remain large, averaging close to 2.2 million tons annually during 1982/83-1984/85.

Sustained long-run growth in food grain production depends heavily upon improvements in irrigation, credit, transportation, flood control, and institutional factors. Still, short-run pricing interventions, such as supporting crop prices and subsidizing inputs, are also important policy instruments.

Although both price supports and input subsidies can stimulate production, their cost to the economy per ton of increased output can differ substantially. An input subsidy boosts application of the subsidized input--indirectly affecting production. It also influences the use of other inputs in a highly complex fashion that makes computation of actual costs difficult. Raising crop prices influences costs in a complex way because it is equivalent to a proportional subsidy on all inputs. A decision on whether to raise the price of outputs or lower the prices of selected inputs requires an accurate assessment of the costs and benefits of each alternative.

Goals and Constraints of Food Grain Price Policy

While the Government has recognized that adequate producer price incentives are important, the political imperative to stabilize food prices and supplies for vulnerable consumer groups has generally biased food grain price policy more towards consumers than towards producers. To help assure affordable consumer prices, imported food grains and the relatively small amounts of food grains procured in domestic price support operations are distributed at subsidized prices to urban consumers, primarily through the public food distribution system (PFDS). Imported wheat, both commercial and concessional, has accounted for most subsidized distribution. It normally offers significant budgetary savings because of its lower cost relative to imported rice and domestically procured rice and wheat.

To help stabilize prices, distribution through the PFDS typically is increased in poor production years and reduced in good production years. However, PFDS sales are always large relative to the domestic marketed surplus of food grains. This policy distorts prices below market-clearing levels and benefits urban consumers. On the other hand, farmers earn less than would otherwise be the case, and farm output is reduced.

In recent years, the Government has attempted to maintain a support price sufficient to raise production by stimulating investment in modern inputs. However, while minimum support prices are set above the estimated cost of production, the Government has been unable to consistently maintain actual harvest prices at support levels. Procurement in Government price support operations has averaged only about 3.5 percent of food grain production since independence in 1971. Budgetary constraints and inadequate institutional support for procurement have precluded more effective price support operations.

Another constraint on stronger food grain price incentives is the need to maintain an appropriate relationship between the prices of rice and jute. Jute and rice compete for some of the same land, and jute exports account for over half of Bangladesh's export earnings. Therefore the impact of higher rice prices on the area planted to jute is a critical policy issue.

Use of Fertilizer Subsidies

The major price policy used to encourage food grain production has been subsidies on inputs, primarily fertilizer and irrigation. From 1972/73 until 1980/81, the Government supplied domestically produced and imported fertilizer to food grain and jute producers at about half the free market price. In 1972/73, 65 percent of the cost of fertilizer was subsidized, compared with 50 percent in 1977/78 and 45 in 1979/80.

As fertilizer application increased, food aid donors became concerned about the efficiency of its use. As a result of this concern, fertilizer distribution was shifted to private firms in 1981, and fertilizer subsidies were reduced to 20 percent by 1984/85. Because of increased fertilizer use, however,

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the total cost of fertilizer subsidies to the Government was at least $50 million (about 3 percent of the total budget) in each of the last 5 years.

Procedures for Evaluating Program Costs

In view of the Government's budgetary constraints and the priority accorded to food grain self-sufficiency, the aspects of the price support and input subsidy programs which are evaluated here are their differential impacts on government costs, foreign exchange savings, and producer welfare. The analysis is applied to all the major food grain crops grown in Bangladesh (three rice crops and one wheat crop), and also incorporates the effects of the interaction between rice and jute. With the procedures used, the effects of the two programs on consumer welfare differ only negligibly, because the prices of subsidized cereals are held constant and quantities distributed are adjusted to help stabilize consumer prices.

Effects of Higher Crop Prices

Increasing food grain production through higher price supports results in higher Government expenditures for procuring and handling the additional food grains that are produced, and for distributing procured food grains at subsidized consumer prices. Outlays for existing fertilizer subsidies also rise, as the higher crop prices lead to more fertilizer use.

The net savings in foreign exchange associated with the price support program is equal to the reduction in expenditures on food grain imports as higher domestic production reduces import needs, minus the cost of larger fertilizer imports and the loss in revenues from smaller jute exports. It is assumed that imports will continue to account for 30 percent of fertilizer consumption. Exportable supplies of jute will fall as higher food grain support prices lead to some diversion of jute area to rice.

The price support program leads to a producer welfare gain equivalent to the additional revenues generated by the higher selling price, less the additional cost of inputs used to increase production.

Effects of Higher Fertilizer Subsidies

Government costs associated with the fertilizer subsidy program include the cost of subsidizing the greater volume of fertilizer used by food grain and jute producers at the lower price, and the costs of procuring and distributing enough of the additional production of food grains to maintain the existing support price.

The net foreign exchange savings associated with a larger fertilizer subsidy are equal to the reduced cost of food grain imports, plus the gain in revenues from larger jute exports, minus the cost of additional fertilizer imports. The change in producer welfare can be estimated as the additional revenues from selling the increased output, minus any change in costs resulting from using larger amounts of less expensive fertilizer.

Farmer Responsiveness to Crop and Fertilizer Prices

To estimate the various program costs and benefits itemized above, it is necessary to know the responsiveness of Bangladeshi farmers to changes in crop and fertilizer prices. These measures of responsiveness (called elasticities) have been estimated at ERS and are shown in table 20. 2/

The effectiveness of higher price supports depends largely on how responsive producers are to a change in a commodity's price--or that crop's own-price elasticity of supply. The higher the elasticity, the greater the output response and the smaller the price increase needed to evoke a given change in production. The estimated own-price elasticities shown in table 20 range from .259 for wheat to .697 for spring rice. As is the

2/ The elasticities were estimated by fitting normalized, restricted translog profit functions to cross-sectional data collected from samples of rice, wheat, and jute producers for the 1977/78 production year. The functions satisfy the theoretical conditions pertaining to profit maximization. The procedures used in estimating the elasticities are described more fully in unpublished papers and a forthcoming ERS publication by the author.

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Table 20. Estimated crop supply and fertilizer demand elasticities for major crops in Bangladesh

Crop	Change in crop price		Change in fertilizer price	
	Change in crop prod.	Change in fert. demand	Change in crop prod.	Change in fert. demand
Spring rice	.697	2.977	-.046	-1.828
	(.055)*	(.232)	(.005)	(.190)
Summer rice	.420	1.956	-.050	-.421
	(.015)	(.243)	(.013)	(.241)
Winter rice	.473	1.049	-.063	-1.529
	(.064)	(.501)	(.030)	(.363)
Wheat	.259	2.103	-.068	-.843
	(.041)	(.105)	(.021)	(.700)
Jute	.371	3.413	-.032	-.294
	(.030)	(.414)	(.006)	(.719)

* Numbers in parentheses are asymptotic standard errors calculated at the sample means. In general, the lower the standard error relative to the elasticity, the higher the reliability of the elasticity estimate.

SOURCE: ERS estimates.

case in many developing countries, these elasticities are relatively inelastic--that is, producers respond to a 1-percent change in price with substantially less than a 1-percent change in production.

The changes in fertilizer use resulting from a change in crop price are measured using the elasticity of fertilizer demand with respect to the output price. For the major crops, these elasticities range from 1.049 to 3.413 and indicate that fertilizer use is relatively responsive to changes in crop prices.

The Government costs associated with higher price supports are also influenced by how much additional food grain must be procured and distributed at subsidized prices in order to prevent an increase in open market consumer prices. The portion of increased production that is marketed by producers is assumed to be the same for both programs, but increased support prices will boost consumer prices unless a larger share of the marketed surplus is procured and distributed at subsidized prices. Additional procurement and distribution under the price support program are calculated using the price elasticity of demand for food grains, which has been estimated in other research at -.30.

The effectiveness of a fertilizer subsidy program depends primarily on the size of the elasticity of output supply with respect to fertilizer price--that is, how much farmers change production in response to a change in fertilizer prices. The more negative the elasticity, the less fertilizer prices have to be reduced to stimulate a given increase in output. For the major crops in Bangladesh, the elasticities range from -.032 to -.068, indicating that crop production is largely unresponsive to a change in fertilizer price alone. The costs of supplying additional fertilizer to farmers are determined by the degree to which farmers change their use of fertilizer as fertilizer prices change. These elasticities range from -.294 to -1.828, indicating significant variability in the extent to which producers of different crops respond.

Thus, comparison of the crop price elasticities with those for fertilizer prices indicates that, in general, producers respond more strongly to crop price changes than they do to fertilizer price changes.

Program Cost Estimates

The estimated incremental Government costs, net foreign exchange savings, and changes in producer welfare associated with using price support and fertilizer subsidy programs to stimulate a 1-percent increase in food grain production are compared in table 21. These incremental cost and benefit items are calculated using the elasticity estimates shown in table 20, with the 1978/79-1980/81 averages of crop production, crop prices, and fertilizer prices taken as the base level. It should be noted that the results are sensitive to the base levels used for domestic prices and import prices of crops and fertilizer.

The results indicate that the major difference between the two programs is in the area of Government costs. The bugetary cost of the price support program is about 60 percent lower than the fertilizer subsidy program. The net foreign exchange savings and producer welfare gain are slightly higher for the fertilizer subsidy program. Based on these criteria, and particularly if minimizing bugetary costs is a key objective, enhanced price supports may be the better policy option for stimulating production.

It should be noted, however, that these results do not imply that price policies, such

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as stronger price supports, are the best way to attain food grain self-sufficiency. For price incentives to be effective, production technology and inputs must be available. Sustained investment in rural infrastructure, research, and institutional support for agriculture are critical. Moreover, adequate marketing and storage facilities are prerequisites for effectively supporting farm prices.

In Bangladesh during the early 1980's, more emphasis is being placed on strengthening support prices, while fertilizer subsidies have been gradually reduced. The results of the analysis presented here indicate that this shift in policy supports efforts to boost growth in food grain production from the annual rate of 3 percent achieved since independence, to the 4-percent rate needed to approach self-sufficiency during the 1990's.

Table 21. Estimated benefits and costs of price support and fertilizer subsidy programs in Bangladesh 1/

Benefit/ cost item	Spring rice		Summer rice		Winter rice		Wheat		Jute		Total	
	Price supp.	Fert. subs.	Price supp.	Fert. subs.	Price supp.	Fert. subs.	Price supp.	Fert. subs.	Price supp.	Fert. subs.	Price supp.	Fert. subs.
						Million dollars						
Gov't cost increase	2.5	7.9	5.1	11.8	2.0	9.9	2.9	2.3	--	1.8	12.5	33.7
Net foreign exchange savings	8.6	5.3	10.6	14.9	3.4	0.5	1.1	1.0	-2.5	1.8	21.2	23.5
Producer welfare gain	.7	.6	1.4	1.7	1.3	.3	.2	.8	-0.6	6.5	3.0	9.9

1/Estimated incremental costs and benefits of inducing a 1-percent increase in total food grain production through each policy.

SOURCE: ERS estimates.

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